AR91

2007 SGI CANADA annual report

STRIVING TOWARDS OUR VISION

SGI CANADA

VISION AND VALUES

We will become a leading national property and casualty insurer by offering competitive, high-quality products and services in partnership with our brokers.

INTEGRITY
Conducting ourselves with honesty, trust and fairness

CARING
Acting with empathy, courtesy and respect

INNOVATION
Implementing creative solutions to achieve our vision

ABOUT SGI CANADA

SGI CANADA is a dynamic and innovative company selling property and casualty insurance products in more than half of Canada's provinces. It currently operates as SGI CANADA in Saskatchewan, SGI CANADA Insurance Services Ltd. in Manitoba and Alberta, Coachman Insurance Company in Ontario and the Insurance Company of Prince Edward Island in P.E.I., Nova Scotia and New Brunswick. The company employs about 1,700 people and its head office is located in Regina. Products are sold through a network of independent insurance brokers.

2007 SGI CANADA annual report

STRIVING TOWARDS OUR VISION

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LETTER OF TRANSMITTAL

Regina, Saskatchewan
March, 2008

To His Honour,
The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of the Province of Saskatchewan

Your Honour:
I have the honour to submit herewith the annual report of Saskatchewan Government Insurance for the year ended December 31, 2007, including the financial statements in the form required by the Treasury Board and in accordance with *The Saskatchewan Government Insurance Act.*

I have the Honour to be, Sir,

Your obedient Servant,

Ken Cheveldayoff

Honourable Ken Cheveldayoff
Minister of Crown Corporations

PRESIDENT'S MESSAGE

Overall, 2007 presented challenges for SGI CANADA; however, the Corporation showed its strength and experience by recording another profitable year.

Posting a profit of $35.1 million, SGI CANADA's financial success was due in large part to our commitment to our vision and corporate strategies.

The vision of becoming a leading national property and casualty insurer by offering competitive, high-quality products and service in partnership with brokers continued to be our guiding force in 2007. To ensure we're constantly progressing toward our vision, strategies have been developed with supporting targeted goals that are measured throughout the year. In 2007, we either met or exceeded many targets. However, due to severe summer storms on the Prairies, some financial results were slightly below target.

One of SGI CANADA's primary financial goals is to return money to its shareholder. In 2007, we measured progress against this goal by tracking SGI CANADA's return on equity and its consolidated combined ratio, which measures total expenses compared to net premiums for all SGI CANADA operations. Both objectives were slightly above target in 2007. SGI CANADA's financial results dropped slightly from a record year in 2006 – due to a number of summer storms that swept across Saskatchewan and Manitoba.

Wind and hail damage, as well basements flooding due to sewer back-up, resulted in approximately 4,400 summer storm claims with damages of approximately $23.1 million in Saskatchewan, far exceeding the yearly average.

OUR CHANGING WEATHER

As the number of severe weather situations increases, SGI CANADA can expect to receive more claims resulting in larger costs to the company, which in turn will eventually result in rising insurance premiums for customers.

By expanding business to different geographic locations, SGI CANADA can spread some of the risk of climate change; however, more research needs to be done to understand weather patterns and how they will affect the industry in the future.

PRESIDENT'S MESSAGE

In June 2007, SGI CANADA donated $250,000 to the University of Saskatchewan's Centre for Hydrology as part of its Thinking the World of Our Future campaign. This money will support research to advance the understanding of climate change on the Prairies.

The research will also provide practical tools that could help to minimize damage caused by severe storms like those experienced in 2007.

Unfortunately, it was too soon for the benefits of this research to help us in 2007. However, our expansion efforts helped smooth the impact of the storms, as our out-of-province operations made up 25% of the Corporation's overall profits.

THE NEXT $50 MILLION

Recent volatile weather and resulting claim costs show why it is important for insurance companies to protect against significant losses in one area with operations in other geographic locations.

Expansion at SGI CANADA means greater financial stability, higher profits for shareholders and more jobs as we service new business.

SGI CANADA's expansion began in 1993 when SGI CANADA Insurance Services Ltd. began offering property and casualty products in Manitoba. Since that time, we've added operations in Ontario, the Maritimes and Alberta, giving the Corporation a strong market presence in seven Canadian provinces.

In 2005, SGI CANADA set a goal to increase premiums outside Saskatchewan by $50 million by 2009, and the supporting target for 2007 was to grow premiums by $13 million. However, due mainly to pressures in the Ontario automobile market, the result fell short with an increase in premiums of $8.0 million.

Besides growing the premium base, we also want to increase the amount of business we conduct outside Saskatchewan. By 2010, the corporation hopes to have 26% of its business outside of Saskatchewan. We are well on our way to meeting that target as SGI CANADA wrote approximately 18.5% of business outside the province in 2007.

While we're working to expand business outside Saskatchewan, our goal within the province is to maintain our current market share of 40%, which we achieved in 2007.

OPERATIONS ACROSS THE COUNTRY

Looking at business in Saskatchewan, premiums written also exceeded expectations; however, as mentioned earlier, the summer storm season quickly and unfavourably impacted the bottom line.

SGI CANADA Alberta enjoyed a productive second year with premiums written far exceeding expectations and we're poised to do great things in Wild Rose Country in the years ahead. In response to the rapid success and growth in the Alberta market, SGI CANADA opened an Edmonton office in July 2007.

SGI CANADA Manitoba was also impacted by a number of storms that swept across the province this summer, resulting in a higher number of severe claims being reported. Despite the storms, Manitoba operations still generated an underwriting profit.

Competitive pressures in the Ontario automobile market continue to affect Coachman Insurance Company. To meet that challenge, the Company focussed on strong underwriting fundamentals and provided outstanding customer service to brokers in 2007. Despite pressures and rising industry loss ratios, Coachman provided satisfactory returns, posting a strong profit.

In the Maritimes, the Insurance Company of Prince Edward Island experienced a 28% growth in premiums written in 2007. The Prince Edward Island book of business was steady, with growth in both New Brunswick and Nova Scotia. This was largely attributable to this being our first year offering all lines of business in New Brunswick and Nova Scotia.

BROKER PARTNERSHIPS

SGI CANADA's successful year was also due to the work of our loyal, dedicated broker force across the country. We are committed to delivering our products through a strong network of independent insurance brokers. Each year we measure our success in building broker partnerships through satisfaction surveys. This year's survey results were very positive, meeting or exceeding targets.

PRESIDENT'S MESSAGE

OUR EMPLOYEES

Of course our success and growth in 2007 was made possible by the efforts of SGI CANADA employees. The Corporation has the advantage of a number of long-term and experienced employees. Their knowledge and expertise is complemented by the fresh ideas and enthusiasm of a new generation of employees SGI CANADA has had the good fortune to add to its ranks.

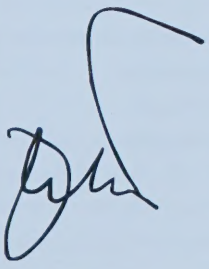
By taking on new challenges and providing dedicated customer service, SGI CANADA employees have helped the company progress towards its vision.

To support continued progress, SGI CANADA has developed a corporate strategy that aims to enhance our employees' skill set and ensure our employees continue to be engaged in the work they do.

In recent years, provincial and corporate demographics have created a business need to recruit a diverse workforce. SGI CANADA strives to meet goals to help it achieve a truly representative workforce and results in these areas are strong, with all categories nearly meeting or exceeding targets for the year.

An Employee Value Index (EVI) tracks progress on building employee engagement within the Corporation. The EVI is calculated twice a year from answers to 11 employee satisfaction questions, helping SGI CANADA to evaluate the experience it is providing to employees. EVI results in 2007 exceeded targets set for the year.

As we move into 2008, SGI CANADA's future is bright. With a little help from Mother Nature, and our continued commitment to our corporate strategies and goals, I am confident we will make great strides toward our vision in the years ahead.

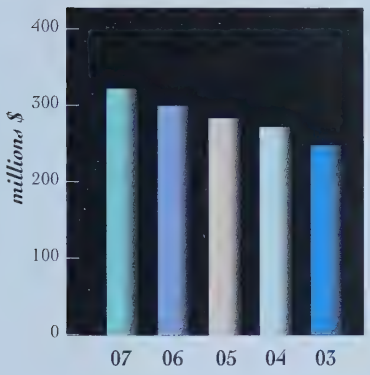


Jon Schubert
President and CEO

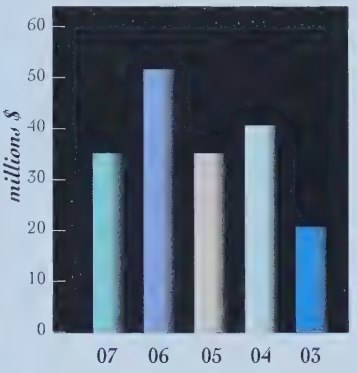
FIVE-YEAR REVIEW

SGI CANADA Consolidated as at December 31, 2007

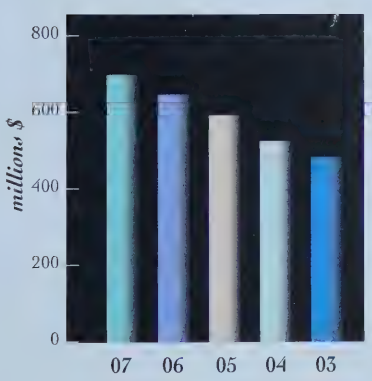
Net Premiums Written



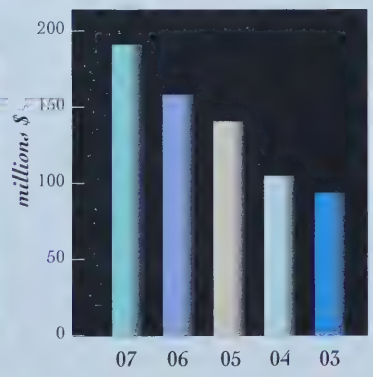
Net Income



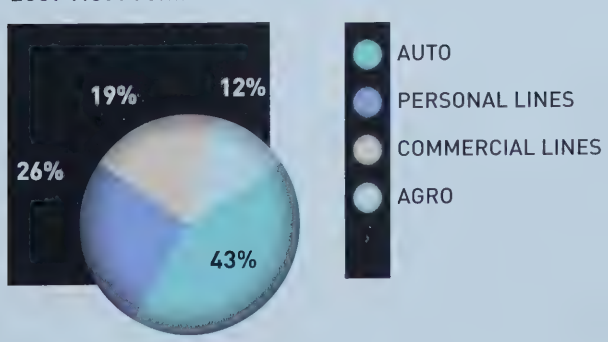
Total Assets



Shareholders' Equity



2007 Net Premiums Written



In millions of dollars except pre-tax return on equity and ratios.

Net premiums written

2007	06	05	04	03
320.7	301.2	286.4	278.0	249.0

Net income

2007	06	05	04	03
35.1	52.1	35.2	41.7	21.2

Total assets

2007	06	05	04	03
707.2	662.5	598.2	528.9	483.4

Shareholders' equity

2007	06	05	04	03
189.0	161.6	143.4	106.0	92.5

Pre-tax return on equity

2007	06	05	04	03
22.2%	35.4%	28.9%	43.5%	25.0%

Loss ratio

2007	06	05	04	03
60.9%	54.0%	57.8%	58.9%	62.3%

Expense ratio

2007	06	05	04	03
38.7%	37.4%	36.1%	35.2%	36.6%

Combined ratio

2007	06	05	04	03
99.6%	91.4%	93.9%	94.1%	98.9%

NATIONAL EXPOSURE

As the Corporation works toward its vision of becoming a leading national property and casualty insurer, SGI CANADA is committed to engaging in initiatives that help raise its national profile.

In 2007, SGI CANADA undertook two unique and innovative ways to gain national exposure.

RCMP Heritage Centre

In May 2007, SGI CANADA donated $1.5 million to the RCMP Heritage Centre in Regina. With this contribution, the Corporation maintains exclusive naming rights to the centre's state-of-the-art multimedia theatre, the SGI CANADA Theatre, for the next 20 years.

The RCMP Heritage Centre is situated on the grounds of the RCMP Training Depot and is quickly becoming one of Canada's top tourism attractions.

With 150,000 visitors anticipated to the centre each year, this sponsorship is an excellent opportunity for SGI CANADA to introduce itself to Canadians as it works toward becoming a national insurance company. It provides an opportunity to raise corporate profile with existing and potential customers and at the same time demonstrate its partnership with the RCMP.

At the centre, SGI CANADA is recognized on a plaque outside the entrance of the theatre, and the SGI CANADA logo appears on all admission tickets. SGI CANADA is also profiled on the theatre screen prior to each and every showing in the multimedia theatre.

The theatre, one of the most technically advanced in the country, will be a key element of any visit to the centre.

NATIONAL EXPOSURE

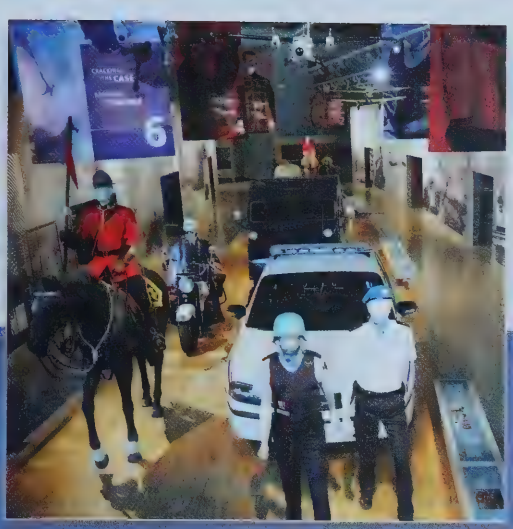
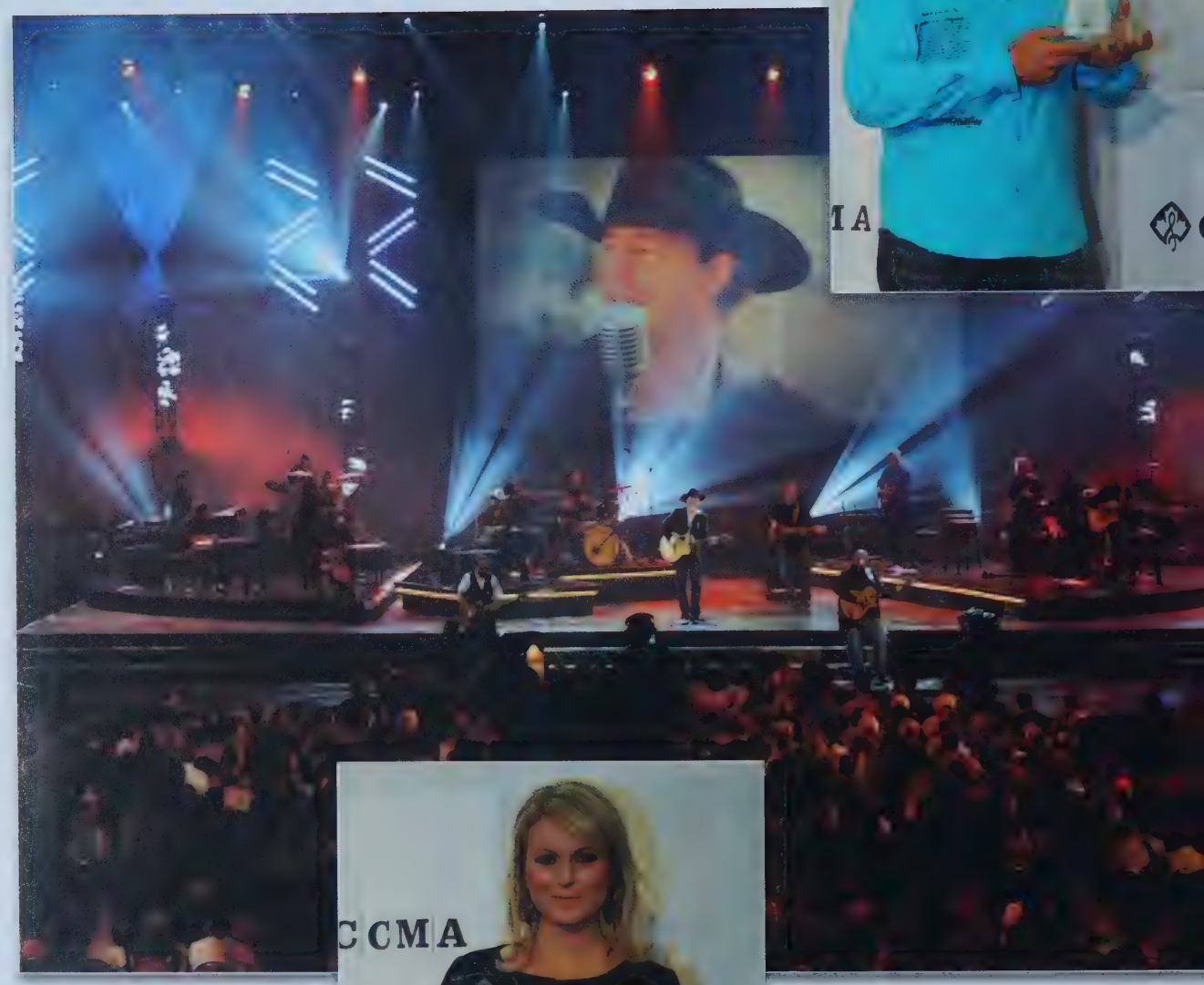


photo credit: Troy Fleece

photo credit: RCMP Heritage Centre

photo credit: Heidi Allred



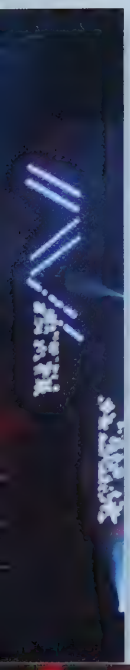
Canadian Country Music Awards

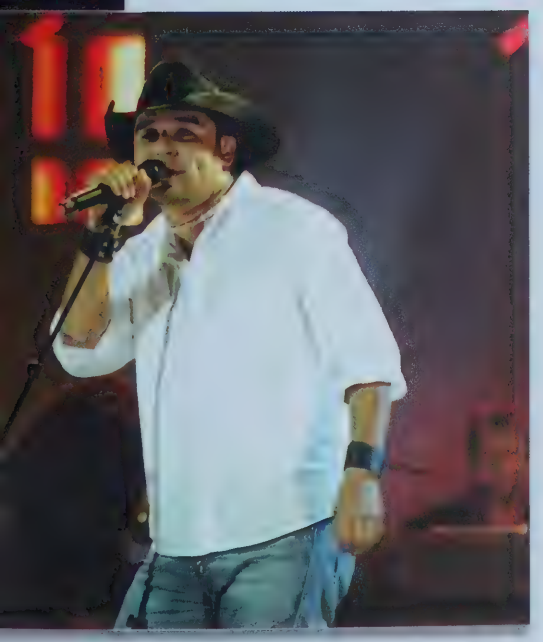
The Canadian Country Music Awards (CCMA) recognize the best in Canadian country music and showcase the many talented musicians working in Canada. SGI CANADA was proud to participate as the official insurer of CCMA for the 2007 awards ceremony held in Regina on Sept. 10.

SGI CANADA received tremendous national exposure during the prime-time televised program on CBC, including the SGI CANADA logo being displayed during the telecast, as well as corporate recognition during a 30-second commercial.

In addition, SGI CANADA promotional items were placed in 700 delegate bags for industry representatives attending the event's week-long conference and there was a full-page ad in the award show program.

In 2008, SGI CANADA will continue to look for new, exciting ways to raise its national profile.





MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (MD&A) is the responsibility of management and reflects events known to management to March 15, 2008. The Board of Directors approved this MD&A at its meeting on March 15, 2008.

OVERVIEW

The MD&A is structured to provide users of SGI CANADA's financial statements with insight into SGI CANADA (denoted as the Corporation) and the industry in which it operates. This section contains its strategies and its capability to execute the strategies, key performance drivers, 2007 results, liquidity and capital, critical accounting estimates, upcoming changes in announced accounting policies, risk management and the outlook for 2008. Information contained in the MD&A should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

The following table of contents provides a quick reference to the main sections within this MD&A:

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The Property and Casualty Insurance Business Environment	16
Strategic Direction	17
Corporate Strategies	17
Capability to Execute Strategies	25
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WHERE SGI CANADA CAME FROM

In 1944, the Government of Saskatchewan passed *The Saskatchewan Government Insurance Act* creating the provincial Crown corporation that is known today as SGI. SGI was created to rectify problems in the Saskatchewan insurance industry. At that point in time, poor economic conditions had driven many insurers out of the province.

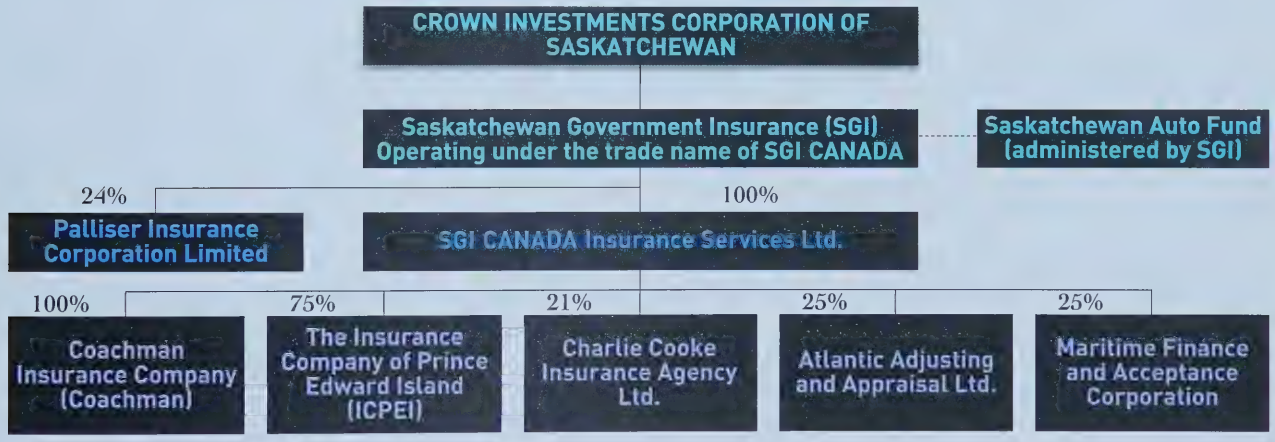
SGI's mandate since its inception has been to provide comprehensive, affordable insurance protection to the people of Saskatchewan. In 1980, legislated changes to *The Saskatchewan Government Insurance Act, 1980* and *The Automobile Accident Insurance Act* distinguished between the compulsory vehicle insurance program for the province (the Saskatchewan Auto Fund) and the competitive insurer offering additional property and casualty products (SGI CANADA).

SGI CANADA is the trade name that SGI operates under to provide competitive, quality property and casualty (P&C) insurance products in Saskatchewan. P&C product offerings include policies for automobile, home, farm and commercial enterprises. In addition, SGI CANADA, through its subsidiary SGI CANADA Insurance Services Ltd., offers similar products in six other provinces across Canada.

The SGI CANADA annual and quarterly reports are available on its website at www.sgicanada.ca under Corporate Profile.

The operations in provinces outside Saskatchewan are important to the Corporation in order to spread risk, maintain and create jobs in Saskatchewan, and increase economic returns for SGI CANADA's shareholder, Crown Investments Corporation of Saskatchewan (CIC). In 1993, SGI CANADA Insurance Services Ltd. began offering P&C insurance in Manitoba. In 2001, SGI CANADA Insurance Services Ltd. became the majority shareholder (75%) of the Insurance Company of Prince Edward Island (ICPEI) and also purchased 100% of the shares of Coachman Insurance Company (Coachman). Coachman operates in Ontario while ICPEI operates in Prince Edward Island, New Brunswick and Nova Scotia. SGI CANADA Insurance Services Ltd. has been operating in Alberta since June 2006, offering a full package of P&C insurance products (auto, home, farm and commercial enterprises).

The Corporation is a provincial Crown corporation wholly owned by CIC. The following organization chart illustrates the Corporation's ownership structure:



As a provincial Crown corporation, SGI CANADA is not subject to federal or provincial income taxes. Its subsidiaries are not provincial Crown corporations; thus they are subject to federal and provincial income taxes. The consolidated financial results of SGI CANADA are included in CIC's, its parent company's, consolidated financial statements.

At December 31, 2007, the Corporation employed over 1,700 people, including those employees who work directly for the Saskatchewan Auto Fund. SGI CANADA operates with a network of 265 independent brokers throughout Saskatchewan, as well as 215 brokers operating in Manitoba, Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia. SGI CANADA's corporate head office is located in Regina, Saskatchewan.

THE PROPERTY AND CASUALTY INSURANCE BUSINESS ENVIRONMENT [1]

At September 30, 2007, Canada's highly competitive P&C industry had approximately 210[2] private and government-owned insurers. The P&C industry covers all types of insurance other than life and health. As in prior years, the automobile insurance sector was the largest contributor to gross premium volume at 51% of the industry followed by property at 28%, liability insurance at 12% and other insurance at 9%.

Insurance is a mechanism for spreading risk, for sharing the losses of the few among the many. Insurance makes the life of an individual or business enterprise more stable by allowing people and businesses to engage in many ventures without having to set aside reserves to meet the financial requirements that may arise from certain types of losses. Insurance also facilitates the granting of credit by protecting the investments of both lenders and borrowers.

Insurance can be considered as a large pool into which policyholders place their premiums.[3] This pool provides for payment of losses suffered by those who have claims, and for the cost of running the insurance company. Sometimes total premiums are insufficient to pay claims and operating expenses; however, insurers also use investment earnings to pay claims and keep premiums lower than they might otherwise be.

P&C insurance companies are supervised and regulated at the federal and provincial levels. The federal regulator, the Office of the Superintendent of Financial Institutions, is responsible for the solvency and stability of P&C insurance companies registered federally. Provincial authorities supervise the terms and conditions of insurance contracts and the licensing of companies, agents, brokers and adjusters, along with monitoring the solvency and stability of provincially registered companies. SGI CANADA's subsidiaries are provincially regulated insurance companies.

Since automobile insurance is compulsory in Canada, unlike home and business insurance, it is the most regulated area that P&C companies operate within. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia, which represent approximately 8.4% of the consolidated net premiums earned in 2007.

With net premiums written exceeding $38.3 billion in 2006 and control of investment assets of $85 billion, the industry is a major part of the social and economic fabric of Canada. P&C insurers invest mainly in domestic government bonds, corporate bonds, preferred shares and common stocks. These investments are secure financial instruments that produce a steady flow of income. Government regulations are in place for the P&C industry that require these investments to be made using a prudent person's viewpoint.

The P&C industry also utilizes reinsurance. Reinsurers, most of which are international organizations, spread risks by writing business with insurers in several countries and in many regions around the world. Insurance companies pay premiums to reinsurers in exchange for an agreement to have a proportion of their claims paid for them, particularly in the event of a major loss or catastrophe. Reinsurance is one of many tools used by

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[1] Adapted from "Facts About Property and Casualty Insurance In Canada" prepared by the Insurance Bureau of Canada, *Facts 2006*.

[2] P&C industry data obtained from MSA Researcher P&C database.

[3] This and other terms are defined in the glossary included in this annual report. The glossary begins on page 84.

insurers to guarantee that they will meet every obligation to pay legitimate claims. Recent disasters around the world have led to a decline in the amount of reinsurance available to insurers. As a result, Canadian insurance companies have had to pay higher prices for reinsurance.

The Property and Casualty Insurance Compensation Corporation (PACICC), a non-profit entity, was formed in 1988 to provide a reasonable level of recovery for policyholders and claimants under most policies issued by P&C companies in Canada in the unlikely event of the failure of a Canadian P&C company. The maximum amount a policyholder could recover from PACICC is $250,000 in respect of all claims arising from each policy issued by the insolvent insurer, and arising from a single occurrence. Policyholders may also claim 70% of unearned premiums that have been paid in advance to a maximum of $700 per policy.

Membership in PACICC is compulsory for most P&C insurers in Canada. SGI CANADA, SGI CANADA Insurance Services Ltd., Coachman and ICPEI are all members of PACICC. Members have contributed funds to PACICC so there is money available to pay claims immediately in the event of an insolvency occurring in the industry. Member insurers will provide additional funds, as required, to maintain PACICC. For more information on PACICC, visit its website at www.pacicc.com.

STRATEGIC DIRECTION

SGI CANADA's vision and values are as follows:

Vision

We will become a leading national property and casualty insurer by offering competitive, high-quality products and services in partnership with our brokers.

Values

Integrity – Conducting ourselves with honesty, trust and fairness

Caring – Acting with empathy, courtesy and respect

Innovation – Implementing creative solutions to achieve our vision

CORPORATE STRATEGIES

SGI CANADA's corporate strategies focus on maintaining its market share in Saskatchewan while expanding out-of-province operations profitably utilizing a network of brokers to distribute its insurance products.

SGI CANADA's rationale for growth outside Saskatchewan is to spread geographic risk, to return a profit to its shareholder, CIC, and to create and maintain jobs in Saskatchewan. Growth is important because writing business solely in one geographic location, Saskatchewan, presents a significant risk exposure for an insurance company. Further growth opportunities within Saskatchewan, from an insurance perspective, are limited. Therefore, it is critical to the continued long-term success of SGI CANADA to increase its written premiums profitably outside Saskatchewan.

To meet its overriding strategic goals, the Corporation's main areas of strategic focus are as follows:
- Competitive Business;
- Customer;
- People; and,
- Business Infrastructure.

The four areas above are crucial to SGI CANADA's current and future success. Within these four areas, the Corporation has specific strategic initiatives and has developed key targets to measure performance. The Corporation uses a Balanced Scorecard to monitor its performance and results. The Balanced Scorecard objectives provide a balanced evaluation of key operations and financial results, activities and achievements with both a short and long-term focus.

The following sections discuss key initiatives in each of the four areas of strategic focus, as well as the related key performance indicators from the Balanced Scorecard. The Balanced Scorecard is reviewed annually to ensure its continued alignment with SGI CANADA's corporate strategies. The key performance targets are also reviewed and either updated or removed along with new performance targets being added.

Competitive Business

Key to the Corporation's success is its ability to grow while maintaining profitability in a highly competitive industry. Operations in provinces outside Saskatchewan continue to be crucial to SGI CANADA's growth strategy; however, this strategy also includes maintaining the Corporation's large market share within Saskatchewan. It is a basic business principle for insurance companies to reduce the impact of significant losses by having diversified operations – both geographically and in product mix. Losses in one product or province can be made up through profits in other products and in other provinces. It is important for the Corporation to continue to spread its insured risks, although it is understood that it is not possible for all segments or markets to be profitable each year. One measure for geographic diversification is the percentage of business written outside Saskatchewan. At December 31, 2007, approximately 18% of direct premiums written were from outside Saskatchewan, up 1% from 2006.

To be competitive in the P&C insurance industry in Canada, adequate capitalization is critical. This is not only important from a regulatory perspective, but to allow the Corporation to be flexible in its product offerings in a competitive marketplace. SGI CANADA's main sources of equity are from retained earnings and capital from its parent, CIC. There were no new capital advances to SGI CANADA from its parent during 2007. As well, there were no changes to the capital in the Corporation's subsidiaries during 2007. As SGI CANADA and each of its subsidiaries were profitable during 2007, retained earnings have grown contributing to improved capitalization within each legal entity.

While growth is key to long-term success, the Corporation overall must be profitable in order to sustain growth. To this extent, the Corporation recognizes that it cannot lose sight of the Saskatchewan marketplace, the market where its success developed and that represents approximately 82% of its overall premium base. SGI CANADA strives to continue to grow profitable lines of business in Saskatchewan while maintaining its market share.

Profitable underwriting is dependent on a disciplined underwriting approach and historically SGI CANADA has been very successful. Its success comes from two areas: a large database of information in its underwriting system that allows it to properly assess risks; and, committed and experienced employees and brokers.

As well, effective utilization of reinsurance has been important as it allows the Corporation to write additional business without having to increase its capital base. Reinsurance also sets a maximum dollar limit on exposure to a claim or on a series of claims occurring from a common incident or catastrophe.

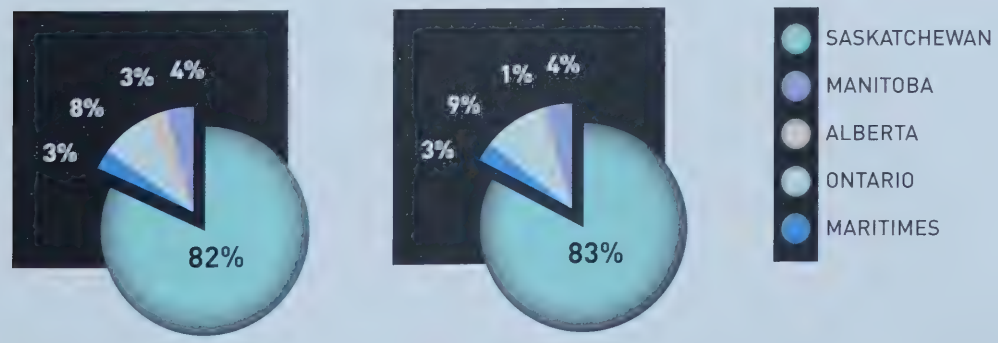
SGI CANADA uses a number of key performance indicators in its Balanced Scorecard to monitor the above initiatives to ensure that it is on course with its strategies:

LEGEND: ■ achieved □ did not achieve

Measure	2007 Target	2007 Results	2008 Target
Geographic diversification	20.6% of direct premiums written from out-of-province	□ 18.5% of direct premiums written were from out-of-province	$73.2 million direct premiums are out-of-province
Minimum Capital Test (consolidated entity)	Be at the industry average (307%)	□ 266%	Be at the industry average (307%)
Combined ratio (consolidated entity)	Less than 100%	■ 99.6%	Less than 100%
Maintain Saskatchewan market share	40%	■ 40%	40%
Pre-tax return on equity (consolidated entity)	Be in the top quartile of pre-tax ROE for P&C industry	■ 22.4%	23.9%

Geographic diversification

The percentage of business outside Saskatchewan measures the Corporation's success in diversifying its operations. The following chart indicates the percentage of business by province based on direct premiums written (excluding Facility Association participation):



2007 2006

SGI CANADA did not meet its target of 21% in 2007, primarily a result of lower than anticipated premiums in the Ontario automobile market. However, the Corporation's out-of-province expansion was still successful as its percentage of business outside Saskatchewan grew 1% since 2006 to 18%. Alberta's growth of 2% in the year was offset by a 1% decline in the Ontario market due to increased competitive pressures in the auto insurance segment in that province. Relative to its Saskatchewan operations, the Corporation maintained its market positions in Manitoba and the Maritimes.

The Corporation has revised this measure for 2008. Rather than measuring growth by the percentage that out-of-province operations provide, a fixed dollar amount has been set for 2008. The target for next year is that out-of-province direct premiums written will be at least $73 million. This is an increase of 18% over the out–of–province direct premiums written in 2007 of $62 million. SGI CANADA expects strong growth to continue in Alberta, New Brunswick and Nova Scotia in 2008, while Manitoba and Ontario are expected to provide moderate growth.

Minimum Capital Test

The MCT is a regulatory measure used to assess a company's financial strength. The MCT is a risk-based capital adequacy framework that assesses the riskiness of assets, policy liabilities and off-balance sheet exposures by applying varying factors. From these calculations comes a ratio of capital available to capital required. The regulatory minimum for this ratio is 150%. That is, capital available has to be at least 50% more than capital required. The 50% cushion provides comfort for insurers to cope with volatility in markets and economic conditions, innovations in the industry, consolidation trends, international developments and to provide for risks not explicitly addressed including those related to systems, data, fraud, legal and other risks. The industry[4] average MCT at December 31, 2007 is not yet available, however it was 307% at December 31, 2006.

The following table shows MCT results by legal entity:

Company	Dec. 31, 2007	Dec. 31, 2006
SGI CANADA (consolidated)	266%	271%
SGI CANADA Insurance Services Ltd. (consolidated)	444%	349%
Coachman	419%	282%
ICPEI	328%	386%

The above table indicates that all companies have a strong MCT at the end of 2007, and except for SGI CANADA consolidated, have a higher MCT than the 2006 industry average. As well, all companies are exceeding the regulatory minimum requirement of 150%.

SGI CANADA Insurance Services Ltd.'s consolidated MCT increased primarily as a result of profitable out-of-province operations in 2007. It indicates that SGI CANADA Insurance Services Ltd. is adequately capitalized to support the Corporation's continued expansion plans for Alberta, Ontario and the Maritimes.

Coachman experienced a significant improvement in its MCT in 2007, a direct result of $7,017,000 net income earned during the year that directly improves the company's capital position. The decrease in the ICPEI MCT was mainly a result of the decline in retained earnings as a result of dividend payments of $1.1 million in 2007.

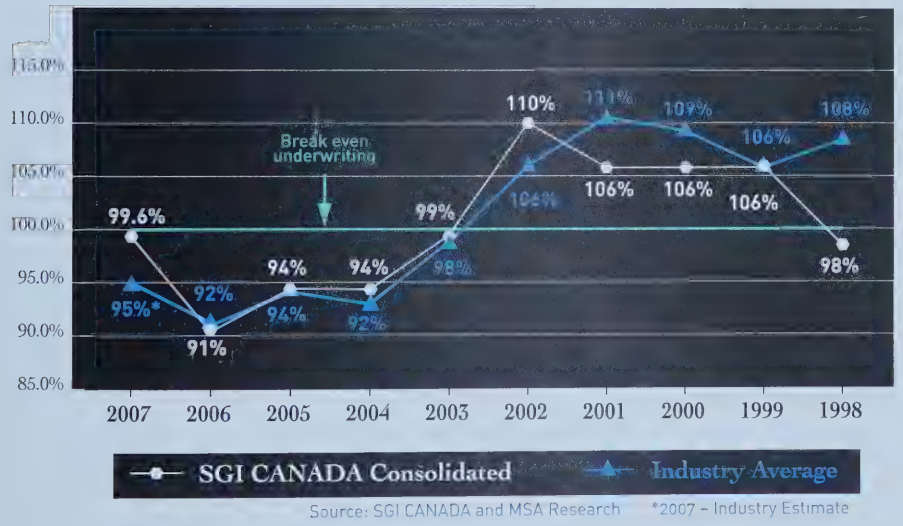
[4] SGI CANADA has defined "industry" for MCT & combined ratio purposes to represent P&C companies (both domestic and foreign branch) with NPW exceeding $6 million CDN and excludes all reinsurers, Lloyd's, ICBC, MPI and the Saskatchewan Auto Fund.

For 2008, the target again is for each legal entity of the Corporation to have an MCT at the average of the industry.

Combined ratio
This ratio is a key profitability measure for the Corporation. It measures the underwriting profit or loss for a company for a period of time. The combined ratio is calculated as total expenses (claims and other expenses, excluding income taxes and minority interest) divided by net premiums earned. Insurance companies attempt to achieve a ratio of less than 100%, which represents an underwriting profit.

From 1998 to 2002, the combined ratio for the P&C industry exceeded 100% as noted in the following chart. The Corporation's average combined ratio over the period 1998 – 2007 is 100%, slightly better than the industry average of 101%.

P&C Industry vs. SGI CANADA Consolidated Combined Ratios



Source: SGI CANADA and MSA Research *2007 – Industry Estimate

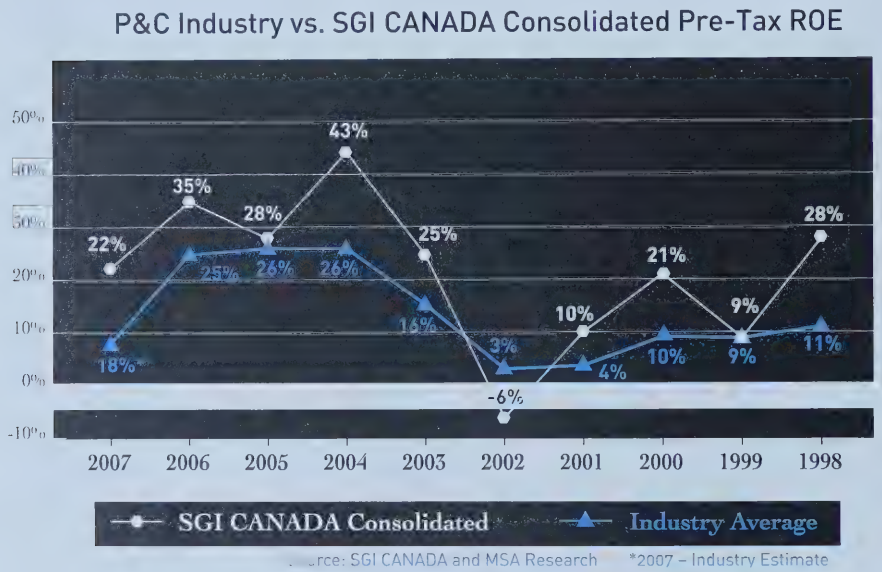
SGI CANADA's consolidated combined ratio for 2007 was 99.6%, an over 8% increase from 2006. The increase is primarily a result of claims incurred during the summer storm season being 215% higher than the 10-year average. In fact, the 2007 summer storm season was the third worst in the past 25 years. Despite the significant summer storms, SGI CANADA managed to generate a small profit from underwriting activities for the year. This is the fifth consecutive year that SGI CANADA has achieved a profit from its core activity of underwriting insurable risks. SGI CANADA's results of operations are discussed in further detail in the following section, 2007 Financial Results on page 27.

The 2008 target is again a consolidated combined ratio below 100%.

Maintain Saskatchewan market share
Maintaining the share of the Saskatchewan insurance market is important to the Corporation. Saskatchewan is the Corporation's home and is the base upon which its success has been built. This target is measured using the Superintendent of Insurance, Saskatchewan market share report for the prior year.

The 2008 Balanced Scorecard target is for SGI CANADA to maintain its 40% market share in Saskatchewan.

Return on equity
Return on equity (ROE) indicates the annual return on the investment made by SGI CANADA's shareholder. It is calculated as the ratio of income before income taxes to the average equity for the year excluding accumulated other comprehensive income. The Corporation's target for 2007 is consolidated pre-tax ROE to be in the top quartile of the Canadian P&C industry.



The industry pre-tax ROE for the year is estimated to be 18% based on data available to the end of the third quarter of 2007, the most recent time period available. For the year ended December 31, 2007, SGI CANADA's consolidated pre-tax ROE was 22%, 4% higher than the projected industry average. The Corporation's 10-year average ROE is 21% while the industry averaged 15% for the same time period.

While SGI CANADA has generally earned an above average ROE, the Corporation understands that it won't outperform the industry every year, as was seen in 2002. However, continued geographic diversification will help the Corporation limit its insurance risk in any one geographic area allowing the company to maintain a strong ROE overall at the same time as it may be experiencing high claim costs in certain markets.

As industry figures are not available on a timely basis, the ROE target for 2008 was revised. For 2008, the target is to achieve a consolidated ROE of 23.9%, based on the Corporation's consolidated budget estimates. The revised target will result in a more timely result being available as soon as year-end results are known.

Customer

Another area of strategic focus is the customer. In addition to policyholders, SGI CANADA considers its customers to be the independent insurance brokers it partners with to sell its products. The Corporation supports them by providing underwriting expertise and self-service capabilities through its broker web interfaces. SGI CANADA works closely with its brokers to obtain input and advice on the changing needs of policyholders.

Claims handling is completed internally as SGI CANADA is committed to providing high levels of customer service. This is based on the belief that personal service in handling claims results in better service to the policyholder and better control over claim costs.

SGI CANADA uses the following key performance indicators in its Balanced Scorecard to monitor customer initiatives to ensure it is on course with its strategies and meeting the needs of both its brokers and policyholders:

LEGEND: ■ achieved ☐ did not achieve

Measure	2007 Target	2007 Results	2008 Target
Broker satisfaction survey – by province	90% broker satisfaction level	■ 94% Saskatchewan; 90% Alberta; 94% Manitoba; 95% Ontario; 98% Maritimes	90% broker satisfaction level
Saskatchewan claims customer survey	91% satisfaction level	☐ 90% satisfaction level	91% satisfaction level

Broker satisfaction surveys
SGI CANADA conducts an annual survey in December with brokers in every jurisdiction it does business in to determine the level of satisfaction they have with the services the Corporation provides to them. It strives for at least 90% of brokers indicating they rate SGI CANADA the same or better than the competition. For 2007, SGI CANADA exceeded its target with a 94% satisfaction rating from Saskatchewan brokers and a 90% or higher satisfaction rating from brokers outside of Saskatchewan.

The target for 2008 continues to be at least a 90% broker satisfaction level in all provinces that the Corporation operates in.

Saskatchewan claims customer survey
The Corporation also conducts semi-annual surveys with claims customers to ensure it is meeting their needs. The target is a 91% approval rating from Saskatchewan claims customers. The latest survey results from December 2007 indicate a 90% satisfaction level, slightly below the target for the year.

The target for 2008 remains a 91% satisfaction level and the Corporation is working hard to achieve it.

People

The Corporation's people strategies for 2007 focused on two areas: growing its people talent and building employee engagement.

Key performance indicators in the Balanced Scorecard to monitor the strategies are:

LEGEND: ■ achieved ☐ did not achieve

Measure	2007 Target	2007 Results	2008 Target
Grow people talent – New hires who are designated group members	25%	■ 31.5%	25%
Employee value index	65.8%	■ 73.7%	71%

Grow people talent

Provincial and corporate demographics demonstrate the need to recruit young people and Aboriginal people. SGI CANADA strives to meet additional goals to help it achieve a truly representative workforce. The Corporation has established targets for all designated groups, including women in under-represented categories, Aboriginal, people with disabilities, visible minorities as well as youth. Results in all areas in 2007 were good, exceeding targets for most of the designated groups. The Corporation also targeted 25% of new hires to be from designated groups and exceeded the target with 31.5%. SGI CANADA continues to target these areas in 2008.

Employee engagement

The Corporation recognizes that the key to achieving all its goals is employing the right people and giving them a good environment to work in. Therefore, it puts emphasis on building employee engagement within the Corporation. Results from the 2005 Employee Survey were used to calculate a benchmark score for employee engagement of 65.8%. Beginning in December 2006, the Corporation began measuring employee engagement against the benchmark through an employee value index survey. The result for 2007 was an employee value index score of 73.7%. The goal for 2008 is a score of 71.0%.

Business Infrastructure

A common pillar supporting all corporate strategies and initiatives is business technologies. The Corporation needs its computer systems available in order to operate its business. If these systems were unavailable for a significant amount of time, the business would suffer. To reduce the amount of potential down time, the Corporation has an agreement with a related party that provides alternative computing services in the event its systems were unavailable for a significant amount of time.

The key performance indicator in the Balanced Scorecard to monitor the above initiative is:

LEGEND: ■ achieved ☐ did not achieve

Measure	2007 Target	2007 Results	2008 Target
Availability of business systems	99.5% of designated hours of operation	■ 99.7% of designated hours of operation	99.5% of designated hours of operation

Availability of business systems
This measures SGI CANADA's success in having its computer business systems available for use by staff and brokers during specific hours of the day and for specific days of the week. For 2007, SGI exceeded its target of 99.5% availability for use. The target for 2008 is the same as 2007 and reflects the importance to operations of maintaining the availability of computer systems.

CAPABILITY TO EXECUTE STRATEGIES

Fundamental to the capability to execute corporate strategies, manage key performance drivers and deliver results are the Corporation's employees, brokers, technology and financial capital. They are discussed further below:

Employees

SGI CANADA's management team is experienced and knowledgeable about the Canadian P&C insurance market. Many of the Corporation's employees are long term with an average term of 16 years of employment, and staff turnover rate for the last five years has averaged 5%. Due to this long tenure and low turnover, the Corporation has significant expertise in the core areas of its business, underwriting and claims handling, as well as within its support areas. This expertise has contributed to SGI CANADA's superior loss ratio and combined ratio in the Saskatchewan market compared to the insurance industry overall. This expertise is also crucial to its success in markets outside Saskatchewan. Maintaining this expertise is key to meeting the challenges that will present themselves in the future.

SGI CANADA is projecting a significant level of retirements in the near future as a large portion of its workforce reaches retirement age. In fact, over 27% of the Corporation's employees are expected to retire, or be eligible for retirement, by 2015. The challenge is to recruit and retain the best people to ensure the longevity, growth and maintenance of SGI CANADA's competitive position for the future. The Corporation has developed a workforce-planning model that includes Aboriginal employment, youth employment, management development and expanded performance management strategies. This model will assist in transitioning expertise as retirements occur.

The Corporation and Saskatchewan Insurance, Office and Professional Employees' Union, Local 397 (COPE 397) signed a three-year Collective Bargaining Agreement (CBA), running from January 1, 2007 to December 31, 2009, on June 12, 2007. The CBA covers the majority of non-management staff employed by the Corporation. The Corporation has not had a work stoppage since 1948 and it will continue to work with COPE 397 to ensure that this record continues into the future.

Brokers

SGI CANADA sells its products through a network of 265 independent brokers throughout Saskatchewan and 215 brokers throughout the rest of Canada. In order to continue delivering insurance products that customers desire, SGI CANADA works closely with brokers to obtain input and advice on the changing needs of customers. With the assistance of brokers, SGI CANADA is able to take a lead in delivering innovative insurance products to its customers.

SGI CANADA's brokers are well known in the communities in which they operate and they actively promote the Corporation's products and services. To support its brokers, the Corporation is continually enhancing broker web interfaces to make it easier for them to promote its products and to provide them with the self-service capabilities they have requested. The Corporation provides other services to ensure a strong

commitment between brokers and SGI CANADA. This business model has brought the Corporation success in seven different markets in Canada and it will continue to market its products this way, building its broker relationships into the future.

Technology and Systems

SGI CANADA relies on its technology and systems to maintain its in-house underwriting system. Its general insurance system is flexible and can adapt to the changing competitive environment that SGI CANADA operates in. The Corporation has developed a large database of information in this system that provides a competitive advantage in assessing insurable risks. Management reporting systems are utilized to ensure management receives timely information regarding operations and to provide complete and accurate reporting to stakeholders and regulators. The Corporation monitors and responds to changes in technology to ensure that key areas are upgraded in a timely manner.

Capital and Liquidity

Adequate capitalization is crucial for insurers competing in the P&C insurance market in Canada. Not only is it important to ensure adequate funding is available to pay policyholder claims, but it allows a company to be flexible in its product offering mix in the fiercely competitive marketplace. In addition, regulators have certain capital requirements that must be met in order to sell P&C insurance in each province. Without adequate capitalization, SGI CANADA would not be capable of meeting its out-of-province growth targets.

The Corporation's main sources of capital are retained earnings and cash injections in the form of equity advances from its parent, CIC. These equity advances form the Corporation's equity capitalization. There were no new equity advances to SGI from its parent in 2007 and there were no changes to the capital of the Corporation's subsidiaries during the same time period. As SGI CANADA and each of its subsidiaries has been profitable during 2007, retained earnings have grown which has contributed to maintaining or improving the capitalization within each subsidiary, other than ICPEI which returned excess capital to its shareholders as a dividend in 2007.

In Canada, either the Office of the Superintendent of Financial Institutions or provincial regulators regulate P&C insurers. The regulators require insurers to maintain a level of capital sufficient to achieve a target of 150% of a Minimum Capital Test. SGI CANADA uses this test, as well as the net risk ratio, to assess its capital adequacy. Management of the Corporation believes SGI CANADA and each of its subsidiaries is adequately capitalized to meet capital targets, as well as to achieve targets for premium growth outside Saskatchewan, for the next five years.

Financial liquidity represents the ability of SGI CANADA's companies to fund future operations, pay claims in a timely manner and grow. A main indicator of liquidity is the cash flow generated from operating activities. This is a Canadian generally accepted accounting principle (GAAP) measurement and is reported on the Consolidated Statement of Cash Flows. For 2007, SGI CANADA generated consolidated operating cash flows of over $53 million. This cash flow is invested so that it is available to pay claims as they come due and also to meet its dividend requirements to its parent, CIC.

The Corporation's dividend policy requires that at least 65%, to a maximum of 90%, of its consolidated net income be paid as a dividend to CIC. During the current year, dividends of $22,810,000 (2006 – $33,866,000) were declared, meeting this policy requirement. At the same time, adequate capital has been maintained within the Corporation to meet its capital targets and its financial obligations as they come due.

For the cash flow that the Corporation retains, its enabling legislation requires it to follow the same investment criteria that federally regulated P&C companies must follow. This means that the majority of the Corporation's investments are in highly liquid securities that can be sold in a timely manner in order to satisfy financial commitments. As at December 31, 2007, 77% (2006 – 76%) of the investment portfolio was in treasury bills and highly liquid bonds and debentures issued by the federal and provincial governments. The Corporation also invests in corporate bonds, a pooled mortgage fund, publicly traded North American equities and a non-North American pooled equity fund. The Corporation's investment policies prohibit the investment manager from investing in non-bank asset-backed commercial paper; thus, the Corporation did not at any time in 2007 own non-bank asset-backed commercial paper.

2007 FINANCIAL RESULTS

Quarterly Consolidated Financial Highlights

The following table highlights quarter over quarter results for the Corporation:

Quarterly Consolidated Financial Highlights
($ in 000's)

	2007					2006				
	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1	Year
Net premiums earned	80,560	77,746	75,639	73,917	**307,862**	75,873	73,310	71,391	70,233	**290,807**
Claims incurred	34,640	64,825	54,479	33,622	**187,566**	39,212	49,825	36,128	31,905	**157,070**
Net income (loss)	25,011	(9,030)	(2,701)	21,813	**35,093**	14,706	4,773	12,940	19,682	**52,101**
Cash flow from (used in) operations	19,662	16,285	21,883	(4,408)	**53,422**	25,117	21,279	14,462	(10,265)	**50,593**
Investments	481,127	455,826	447,488	467,557		444,464	430,368	399,055	404,383	
Provision for unpaid claims	285,567	298,932	280,336	257,148		263,514	258,179	245,485	246,980	

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2007:

- Claims incurred were abnormally high in both the second and third quarter of 2007 due to severe summer hailstorms and flooding events that occurred in Saskatchewan and Manitoba.
- Net premiums earned have increased consistently each quarter, as can be seen in the quarterly results for both 2007 and 2006.
- Effective January 1, 2007, the carrying value of investments changed to reflect fair values instead of book cost as disclosed in 2006. This change in accounting policy and its impacts are discussed further within the MD&A and in the notes to the consolidated financial statements.
- Quarter over quarter, the Corporation generally generates positive cash flows from operations. Any excess cash is invested which is reflected in increasing investment levels. Usually in the first quarter of each year, there is a negative cash flow that is a result of higher payments for claims from the prior year's storms and the payment of the yearly insurance premium taxes.

For the Three Months Ended December 31, 2007

SGI CANADA prepares public quarterly financial reports for the first three quarters of each year. These reports are available on its website at www.sgicanada.ca. Click on the Corporate Profile link and follow the links in the Financial Report section. The following is the Corporation's analysis of the 2007 fourth quarter results:

SGI CANADA recorded consolidated net income of $25,011,000 for the fourth quarter (2006 – $14,706,000), an increase of over 70% when compared to the fourth quarter of 2006. The increase in net income was attributable to underwriting profits being earned in all operating segments in the quarter along with strong investment returns.

Consolidated net premiums earned in the fourth quarter of 2007 increased $4,687,000 or 6.1% from the fourth quarter of 2006. The increase in net premium earned was from the growth in the Saskatchewan and Alberta markets.

Claims incurred were $34,640,000 for the fourth quarter of 2007, $4,572,000 or 11.7% lower than 2006. The primary contributor to the decrease was Saskatchewan claim costs, which were $28,035,000 for the quarter, $9,934,000 lower than 2006 claim costs of $37,969,000. Partially offsetting the Saskatchewan decline were increases in Alberta and the Maritimes, which were reflective of the significant policy growth achieved in 2007.

Other expenses for the fourth quarter of 2007, excluding claims incurred, were $31,059,000, $2,527,000 more than the corresponding quarter last year. The increase related to commissions and premium taxes that totalled $20,644,000 (2006 – $19,470,000) for the quarter along with higher administration expenses of $10,395,000 (2006 – $9,473,000). The increase in commissions and premium taxes corresponded with the growth in premiums written.

A $1,625,000 redundancy (2006 – $ 1,588,000 loss) related to claims development on a service agreement in Coachman was recorded in the fourth quarter. This is discussed in further detail in the following section, Consolidated Earnings, under the heading Service Agreement.

For the Year Ended December 31, 2007

Consolidated Earnings

Overview of operations

SGI CANADA posted consolidated net income of $35,093,000 in 2007. While this was significantly lower than the record profit earned in 2006 of $52,101,000, 2007 still provided a strong pre-tax return on equity of 22.2%. The decline in profitability was a result of a significant increase in weather-related storm costs in Saskatchewan and to a lesser extent Manitoba. The profitability was also lower in the Ontario and Maritime operations, primarily due to exceptionally low loss experience in 2006.

Operating Segment	2007	% of net income	2006	% of net income
SGI CANADA – Saskatchewan	$ 26,374	75%	$ 39,030	75%
SGI CANADA – Manitoba & Alberta	1,129	3%	1,205	2%
Coachman (Ontario)	7,017	20%	10,352	20%
ICPEI (Maritimes)*	573	2%	1,514	3%
Net Income	**$ 35,093**		$ 52,101	

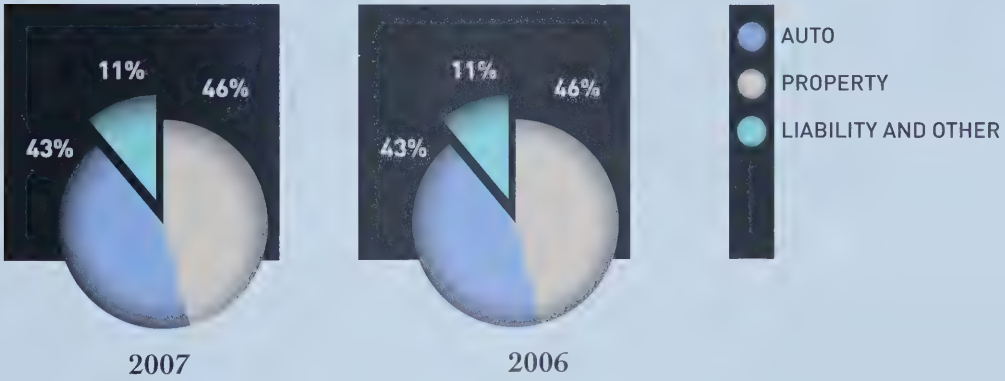
** ICPEI income net of 24.9% minority interest*

Net premiums written

Consolidated net premiums written in 2007 totalled $320,677,000 (2006 – $301,184,000) representing a $19,493,000 or 6% increase from the prior year. The majority of this increase was due to higher premiums written in the Saskatchewan operations of $12,475,000 combined with a $7,018,000 increase in premiums written from out-of-province operations. The increase in out-of-province net premiums written was a result of expanding Alberta operations contributing $10,450,000 (2006 – $2,515,000) while in the Maritimes, net premiums written increased $2,177,000 due to expansion efforts in New Brunswick and Nova Scotia. Net premiums written in Manitoba declined modestly by $212,000 along with the drop in Ontario operations of $2,882,000 due to increased competitive pressures within the auto segment.

When viewed from a line of business basis, the Corporation, on a consolidated basis, maintained its split of business in 2007 of approximately 46% auto, 43% property and 11% liability and other, as shown in the following charts:

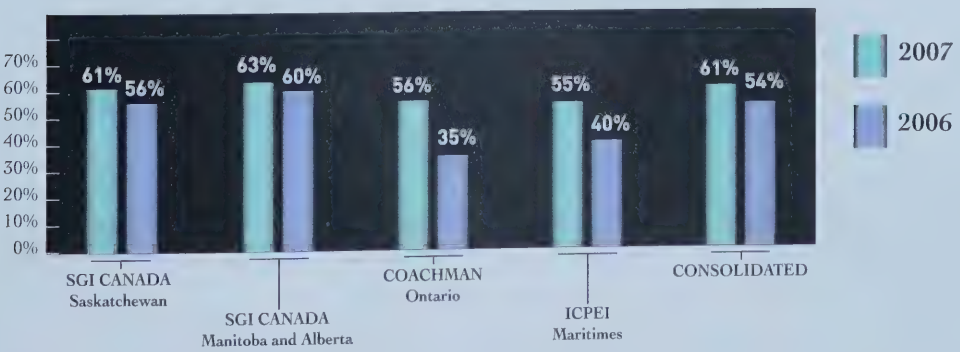
Net Premiums Written by Line of Business



Claims incurred

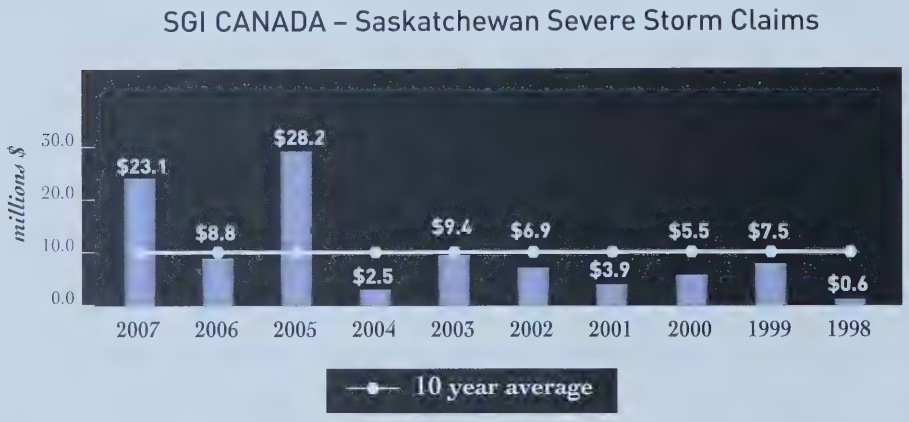
Consolidated claims increased by $30,496,000 in 2007, totalling $187,566,000 for the year. The increase was a combination of higher Saskatchewan and Manitoba claim costs from severe summer storm activity along with expansion into the Alberta, New Brunswick and Nova Scotia markets. The consolidated loss ratio of 61% increased 7% from the 2006 level of 54%. The following table highlights the ratio of claim costs in relation to premiums earned, commonly known as loss ratio, for each operating segment:

Loss Ratios



Claim costs related to Saskatchewan operations increased $19,830,000 from $138,307,000 in 2006 to $158,137,000 in 2007 with a corresponding increase in the loss ratio to 61% from 56%. The increase was a reflection of significantly higher summer storm costs in 2007. Summer storm activity in 2007 resulted in one of the most severe summer storm seasons on record in terms of claim costs. Storm activity in 2007 resulted in claims of $23,063,000 (2006 – $8,780,000), significantly higher than the 10-year average of $9,900,000.

The following graph shows the significance of storm claims over the past 10 years:



The loss ratio for Manitoba and Alberta operations increased slightly from 60% to 63% in 2007, a result of expansion efforts into the Alberta market.

While Ontario's loss ratio increased from 35% in 2006 to 56% in 2007, it was still a very respectable loss ratio.

In the Maritimes, the loss ratio increased to 55% in 2007 from 40% in 2006, very good results for both years. The increased loss ratio in 2007 was a result of two significant fire losses in Prince Edward Island along with one large auto loss in New Brunswick.

Expenses excluding claims incurred

Other expenses increased $9,731,000 from $109,339,000 in 2006 to $119,070,000 in 2007. Of this increase, $3,794,000 related to increased commissions and premium taxes. This increase was consistent with the growth in net premiums written. The remaining $5,937,000 increase was from administration expenses. The 2007 administrative expense ratio increased to 13.2% from 12.0% in 2006. The growth in administrative expenses was primarily attributable to increased salary and benefit costs from negotiated increases contained in the Collective Bargaining Agreement along with an increased number of employees necessary to handle expansion efforts in Alberta.

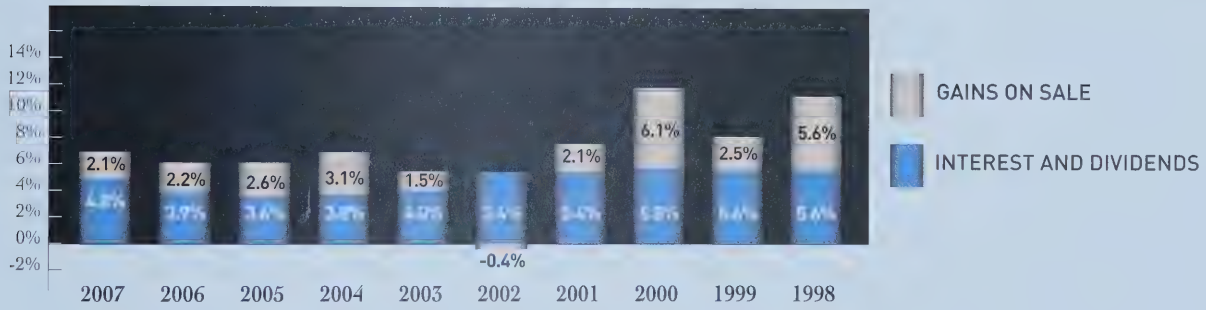
Investment earnings

Investment earnings contribute significantly to net income and help to minimize the volatility in insurance rates. Investment earnings consist of interest and dividend income, net of investment expenses, and realized gains (losses) on investments.

Investment earnings in 2007 of $34,423,000 were $3,872,000 or 13% higher than the previous year's earnings of $30,551,000. Investment earnings consisted of $24,926,000 in interest and dividends (2006 – $21,043,000), and $9,497,000 in net realized investment gains (2006 – $9,508,000). Realized gains for 2007 contributed 28% (2006 – 31%) of total investment earnings.

The amount of realized gains or losses on sale of investments can fluctuate from year to year depending on the size of the unrealized gains in the portfolio, the changes in interest rates and the trading activity in the investment portfolio.

SGI CANADA Consolidated Cost-Based Returns



The SGI CANADA consolidated return on the investment portfolio for 2007 was 6.9% compared to 6.1% for 2006. The return for 2007 exceeded the previous year's due to higher investment returns on common shares, and Canadian and non-North American pooled equity funds. For 2007, net realized gains contributed to 28% (2006 – 31%) of the total investment earnings. Significant gains in equities were realized as a result of rebalancing the portfolios and normal portfolio turnover by the investment manager. Investment write downs during 2007 were $312,000 (2006 – $27,000). The increase in write downs was due to temporary declines in the market value of equities that are in the process of being sold from the portfolio.

Service agreement

During 1998, Coachman entered into a multi-year service agreement with Budget Car Rentals Toronto Limited (the rental company). This agreement was entered into prior to SGI CANADA's ownership of Coachman. The agreement allowed the rental company to self-insure its fleet of vehicles for an annual fee, using Coachman's name on the insurance policy. The rental company was responsible to make all claim payments and report quarterly to Coachman on the status of all claims and the provision for unpaid claims. As security to guarantee the provision for unpaid claims, the rental company was also required to maintain funds on deposit in an amount that would meet the funding of outstanding liabilities related to this agreement.

As this was not considered part of Coachman's core operations, Coachman exited the agreement March 31, 2005. Subsequent to this, in the last quarter of 2005, the rental company filed for voluntary receivership. A detailed review of outstanding claims revealed that the provision for unpaid claims related to this agreement was significantly less than the trust account by $9,705,000.

At December 31, 2007, the provision for unpaid claims related to the service agreement was $4,306,000 (2006 – $8,854,000). During 2007, a reduction in the estimated cost of $1,532,000 (2006 - $1,588,000 loss) was recorded to the service agreement. Since the end of 2005, the adjustment to the loss reserves based on actuarial valuation along with legal expenses incurred have increased the ultimate cost on this service agreement to $9,761,000.

This recovery/loss is unusual and does not relate to Coachman's normal insurance operations. As such, it has been recorded separately in the financial statements on the Consolidated Statement of Operations and Retained Earnings, after underwriting profit and investment earnings. The Corporation is pursuing legal action against certain parties involved to recover losses from this service agreement. Any recoveries will be accounted for in the year of receipt.

Income taxes
The Corporation's out-of-province legal entities, SGI CANADA Insurance Services Ltd., Coachman and ICPEI, are subject to corporate income tax, while SGI CANADA is not. On a consolidated basis, SGI CANADA recorded a tax expense of $2,055,000 in 2007 compared to an expense of $1,377,000 in 2006.

Consolidated Statement of Comprehensive Income

For the Corporation, the Consolidated Statement of Comprehensive Income provides a measure of income which considers changes in the fair value of investments during the year, rather than basing income on net realized gains as provided in net income. In 2007, comprehensive income of $24,307,000 was recorded, consisting of net income of $35,093,000 and an other comprehensive loss of $10,786,000. The other comprehensive loss of $10,786,000 indicates that the unrealized gains on investments declined during the year.

Consolidated Statement of Cash Flows

Operating activities
The Corporation continues to generate healthy cash flows from operations. In 2007, the Corporation generated $53,422,000 from operations, $2,829,000 higher than 2006's cash generated from operations of $50,593,000. The source of the additional cash was due to the growth in premiums written resulting from expansion operations in Alberta, New Brunswick and Nova Scotia.

Investing activities
Each legal entity's excess cash from operating activities is invested in its own investment portfolio. The investment manager actively trades each investment portfolio in the capital markets following the conditions set out in each legal entity's Statement of Investment Policies and Goals. For 2007, the investment manager purchased investments on a consolidated basis worth $822,421,000 (2006 – $651,482,000) and proceeds from the sale of investments of $809,445,000 (2006 – $614,479,000), resulting in consolidated net purchase of investments of $12,976,000 (2006 – $37,003,000).

Financing activities
Financing activities during the year related solely to dividends paid of $29,654,000 (2006 – $23,757,000). The Corporation's dividend policy is to pay between 65% and 90% of the Corporation's consolidated net income for the year as a dividend to CIC.

The primary sources of cash used to fund net purchase of investments of $12,976,000 and dividends paid of $29,654,000 was the cash generated from operations of $53,422,000. The remaining cash that was generated from operations was invested in cash equivalents of $10,940,000.

Consolidated Statement of Financial Position

Cash and cash equivalents

Cash and cash equivalents at December 31, 2007 was $34,994,000 (2006 – $24,054,000), an increase of $10,940,000. The sources of the change in cash and cash equivalents for the year are discussed in the above section, Consolidated Statement of Cash Flows. Cash equivalents consist of money market investments such as treasury bills, banker's acceptances, discount notes or other liquid short-term investments that have a maturity of 90 days or less from the date of acquisition.

Accounts receivable

Accounts receivable decreased during the year by $7,709,000, from $96,081,000 to $88,372,000. The decrease was a result of the timing of investment sales and purchase activities at the end of 2007. Certain investments that were sold prior to the 2006 year-end did not settle until after year-end, resulting in accounts receivable. While the same timing issue occurred in 2007, the magnitude of the amounts involved was substantially lower in 2007 than in 2006.

Future income taxes

The Corporation, through its taxable subsidiaries, SGI CANADA Insurance Services Ltd., Coachman and ICPEI, records future tax assets and liabilities based on the results of its operations each year. Note 14 to the consolidated financial statements contains further details of these balances. At December 31, 2007, the consolidated financial statements had future tax assets of $3,858,000 (2006 – $6,748,000) of which $1,993,000 (2006 – $4,927,000) related to non-capital tax loss carryforwards of Coachman. These tax loss carryforwards expire in 2015. There were future tax liabilities of $1,955,000 (2006 – $1,702,000), resulting in a consolidated net future tax asset of $1,903,000 (2006 – $3,150,000). The Corporation recorded no valuation allowance (2006 – $1,896,000) against the future tax assets in 2007.

Management is required to use judgment to assess the valuation allowance each year, based on guidance within Canadian GAAP regarding the likelihood of recovering the tax asset in the future. The amount of the valuation allowance has been determined using a methodology consistent with the prior year. The future tax asset has been recorded based on the fact that Coachman continues to see positive financial results from significant operational changes implemented four years ago, such as improved claims reserving practices, exiting unprofitable lines of business such as taxis, increasing the property line of business and eliminating unprofitable brokers. Management determined that no valuation allowance was required for 2007 (2006 – $1,896,000) as Coachman had strong earnings over the last two years and the future tax assets were significantly less than the amount in 2006, making it more likely than not that Coachman will realize these assets in the near future.

Investments

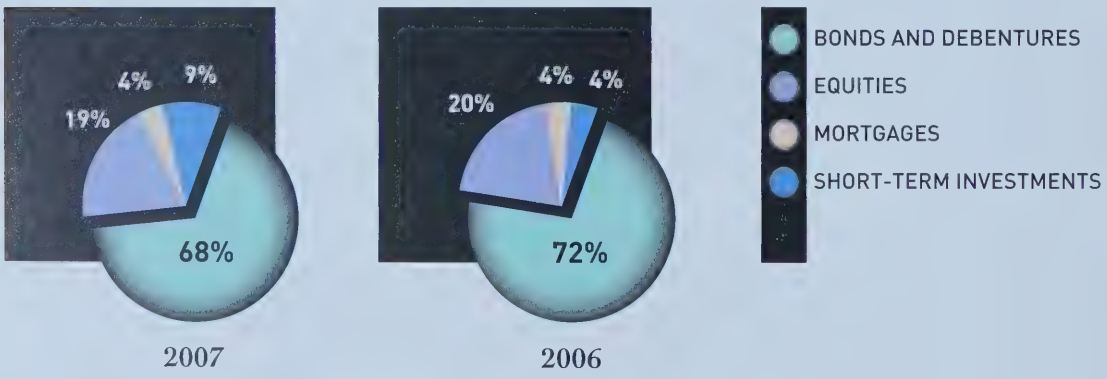
SGI CANADA's investment strategy is based on prudence, regulatory guidelines and claim settlement patterns with a view to maximizing long-term returns utilizing a conservative investment portfolio. Its performance target is to achieve a market value based rate of return superior to the rate of return earned on a benchmark portfolio. The benchmark portfolio is based on capital market index returns weighted consistent with the Corporation's investment portfolio asset mix. The rate of return is measured over a four-year cycle. This longer-term measure has greater relevance and lower volatility than a one-year measurement. Over the period 2004 to 2007, the SGI CANADA portfolio averaged an annual return of 6.8%, exceeding the benchmark portfolio average annual return of 6.1%.

The book value of invested assets increased by $22,785,000 during the year as a result of cash flow generated by operations used for investing activities as well as realized gains on the sale of investments during the year. The market value of the invested assets at December 31, 2007 was $481,127,000, compared to the December 31, 2006 investment portfolio market value of $470,888,000, increasing by $10,239,000. The unrealized gains at the end of 2007 were $15,044,000 (2006 – $26,424,000) and primarily related to equities.

The SGI CANADA investment portfolio is managed by an external investment manager. The portfolio is invested in short-term investments, bonds and debentures, mortgages and equities. Equities consist of Canadian, U.S. and non-North American equities. The Corporation's subsidiaries hold their Canadian and U.S. equities through pooled equity funds, while the Corporation's non-North American equities are held through a pooled equity fund. During the year, SGI CANADA moved substantially all of its segregated mortgages into a mortgage pooled fund in order for it to better participate in the large Canadian commercial mortgage investment environment.

The following charts summarize the asset mix based on fair values at December 31, 2007 and 2006:

SGI CANADA Consolidated Asset Mix (%)



2007 2006

The most significant change to the fair value asset mix in 2007 was the defensive repositioning of the investment portfolio, with a higher allocation to short-term investments and offsetting reductions in bonds and equities.

A change in accounting policies was adopted January 1, 2007 to conform with two new accounting standards issued by the CICA, Handbook Section 1530, Comprehensive Income and Section 3855, Financial Instruments – Recognition and Measurement. These changes in accounting policies are discussed in detail in note 2 to the consolidated financial statements.

The Corporation has classified all of its investments impacted by adoption of these standards as available- for-sale. The classification requires these investments be recorded on the Corporation's Consolidated Statement of Financial Position at fair value, rather than cost. Changes in unrealized gains and losses on investments are recorded as other comprehensive income and are recorded in accumulated other comprehensive income on the Consolidated Statement of Financial Position until those gains and/or losses are realized, at which time they are reclassified to investment earnings.

This impact of the change in accounting standards is discussed in note 2 under the section Change in Accounting Policies. It also resulted in revised accounting policy disclosures within this note for investments, investment earnings and foreign currency translation. In addition, additional disclosure requirements related to unrealized losses on the available-for-sale investments have been included in note 5.

Unearned premiums
At December 31, 2007, unearned premiums were $177,189,000 (2006 – $163,434,000), an increase of $13,755,000. Of the increase, 58% (2006 – 56%) related to premium growth from Saskatchewan and 42% (2006 – 44%) related to out-of-province business. Alberta's underwriting activity for 2007 represented $4,114,000 of consolidated unearned premiums while the Maritimes unearned premiums increased $1,250,000 in 2007 (2006 – $270,000), a direct result of the continued expansion into New Brunswick and Nova Scotia.

Provision for unpaid claims
The December 31, 2007 provision for unpaid claims was $285,567,000 (2006 – $263,514,000), an increase of $22,053,000 from last year. An increase in unpaid claims related to the severe summer storm damage in Saskatchewan accounted for $9,644,000 of this increase. The remainder is largely a result of expansion into Alberta, New Brunswick and Nova Scotia. Unpaid claims for Alberta increased $2,569,000 in 2007, while unpaid claims for the Maritimes increased $1,809,000 in 2007.

This liability reflects the estimated ultimate costs of claims reported but not settled, along with claims incurred but not reported. The Corporation reports as an asset (unpaid claims recoverable from reinsurers) the portion of this liability that is recoverable from reinsurers. Unpaid claims recoverable from reinsurers was $33,824,000 in 2007, an increase of $1,551,000 from the previous year.

As discussed in note 9 to the consolidated financial statements, the process to determine this liability is complex as it takes into consideration numerous variables that are subject to the outcome of future events. Any change in estimates is reflected as claims incurred on the Consolidated Statement of Operations.

Province of Saskatchewan's Equity
Equity increased during the year by $27,438,000, as a result of growth in retained earnings and accumulated other comprehensive income (AOCI).

Retained earnings grew as a result of net income for the year of $35,093,000, less the annual dividend to CIC of $22,810,000. The Corporation's dividend was 65% of net income, consistent with its dividend policy. Opening retained earnings increased by $146,000 from a change in the discount rate used in the actuarial determination of the provision for unpaid claims as discussed on the following page, under the heading Impact of New Accounting Standards.

AOCI was a new component of equity in 2007, also a result of the new accounting standards discussed on the following page. It reflects the unrealized gains or losses related to financial assets designated as available-for-sale. For SGI CANADA, this includes its entire investment portfolio, excluding investments accounted for on the equity basis.

Unrealized gains upon transition at January 1, 2007 were $25,795,000. During the year, the Corporation sold investments resulting in realized net gains of $9,615,000, net of investment write downs of $312,000 and an income tax recovery of $118,000. These amounts were transferred to net realized gain on sale of investments in

the Statement of Operations. Investments also decreased in value during the year due to decreases in the market value of bonds and debentures, representing a decrease to AOCI of $1,171,000, net of income tax recovery of $723,000.

IMPACT OF NEW ACCOUNTING STANDARDS

Effective January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income and Section 3855, Financial Instruments – Recognition and Measurement.

Section 1530 requires presentation of a Consolidated Statement of Comprehensive Income, as included in the Corporation's consolidated financial statements. Comprehensive income is comprised of net income and other comprehensive income (OCI). OCI represents changes in shareholders' equity during a period arising from transactions and other events with non-owner sources, other than net income. The change in OCI is recorded as accumulated other comprehensive income (AOCI) on the Consolidated Statement of Financial Position. The Corporation's OCI is comprised of the change in unrealized gains and losses on those investments designated as available for sale. Those unrealized gains and losses are included in accumulated other comprehensive income (AOCI) on the Consolidated Statement of Financial Position. When the underlying investments are subsequently sold or written down, the resulting realized gain or loss is released from AOCI into investment earnings in the Consolidated Statement of Operations.

Section 3855 establishes standards for recognizing and measuring financial assets and financial liabilities. The measurement basis depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial instruments classified as held for trading are measured at fair value and changes in fair value are recognized in net income. Financial instruments classified as available for sale are measured at fair value with changes in fair value recorded in other comprehensive income, however, unrealized losses considered other than temporary continue to be recognized as a decrease to net income. The criteria to determine whether an unrealized loss is considered other than temporary has not changed under the new section. Financial instruments designated as held to maturity, loans and receivables, or other financial liabilities are measured at amortized cost using the effective interest rate method.

Prior to January 1, 2007, the Corporation amortized the purchase discount or premium from its investments by utilizing the straight-line method over the expected life of the investment. By adopting Section 3855, as of January 1, 2007, the Corporation is now using the effective interest rate method to calculate amortization.

The Corporation has designated its cash and cash equivalents and investments as available for sale, except for investments accounted for on the equity basis, which are exempt from Section 3855. Accounts receivable were designated as loans and receivables. Accounts payable, dividend payable and premium taxes payable were designated as other financial liabilities. The net investment in capital lease, the accrued pension asset, unpaid claims recoverable from reinsurers, amounts due to reinsurers and the provision for unpaid claims are exempt from Section 3855. The Corporation has no financial instruments designated as held for trading or held to maturity.

The adoption of these new sections was applied as of January 1, 2007, without restatement of comparative figures. The effect of the adoption at January 1, 2007 was to increase the carrying value of investments from $444,464,000 to $470,888,000, increase AOCI by $25,795,000 and decrease the future income taxes asset by $629,000. As a result of the changes in the carrying value of investments, the discount rate used in the actuarial determination of the provision for unpaid claims also changed. The impact of this change was a decrease to the provision for unpaid claims of $146,000 with an offsetting adjustment to opening retained earnings of $146,000.

RELATED-PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Saskatchewan departments, agencies, boards, commissions, Crown corporations, and jointly controlled and significantly influenced corporations and enterprises. Transactions with these entities were entered into in the normal course of business and are settled at prevailing market prices under normal trade terms. Further details of related-party transactions are disclosed in note 17 of the consolidated financial statements.

SGI CANADA is the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. SGI CANADA incurs administrative and claim adjustment expenses on behalf of the Auto Fund which are charged to the Auto Fund. Amounts incurred by SGI CANADA and charged to the Auto Fund were $96,657,000 (2006 – $83,346,000) and accounts payable are $3,007,000 (2006 – $1,613,000).

The Corporation, as the lessor, has an interest in a capital lease in Prince Albert, Saskatchewan with the Department of Property Management, a provincial government department. This lease expires in April 2011. Further details of this lease are provided in note 6 to the consolidated financial statements.

The Corporation has direct premiums that are brokered through Charlie Cooke Insurance Agency Ltd. (CCIA), pays claim adjusting fees to Atlantic Adjusting & Appraisals Ltd. and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation. These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business.

During 2007, the Corporation provided CCIA a $450,000 loan for the purpose of purchasing a brokerage.

OFF-BALANCE SHEET ARRANGEMENTS

SGI CANADA, in its normal course of operations, enters into certain transactions that are not required to be recorded on its Consolidated Statement of Financial Position – commonly referred to as the balance sheet. These items include litigation, structured settlements and a long-term telecommunications contract. These items are discussed below and in notes 9 and 21 to the consolidated financial statements.

The Corporation, as is common in the P&C insurance industry, is subject to litigation arising in the normal course of its operations, primarily in claim settlements. SGI CANADA is of the opinion that current litigation will not have a material impact on its operations, financial position or cash flows.

Also, the Corporation and its subsidiaries, in the normal course of settling claims, settle some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for its claimants. This is a common practice in the P&C industry. The net present value of the scheduled payments at December 31, 2007 was $46,977,000 (2006 – $47,181,000). The Corporation provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the Corporation considers the likelihood of such default as being extremely remote.

The Corporation has secured a long-term telecommunications contract with a related provincial Crown corporation that started in 2005 and is scheduled to end in 2011. At December 31, 2007, the remaining commitment under these contracts was $556,000 (2006 – $3,713,000). Coachman has a lease for its office premises expiring December 31, 2008 at an annual rent of $186,000.

CRITICAL ACCOUNTING ESTIMATES

This discussion and analysis of the Corporation's financial condition and results of operations are based upon its consolidated financial statements as presented in this annual report. These consolidated financial statements have been prepared in accordance with Canadian GAAP, as recommended by the Canadian Institute of Chartered Accountants. Significant accounting policies are contained in note 2 to the consolidated financial statements. Certain of these policies involve critical accounting estimates because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

The Corporation has discussed the development, selection and application of its key accounting policies and the critical accounting estimates and assumptions they involve with the Board of Directors. The most significant critical accounting estimates involve the provision for unpaid claims, impairment of investments, reinsurance, income taxes and employees' future benefits.

Provision for unpaid claims

A provision for unpaid claims is maintained to cover the estimated ultimate liability for losses and loss adjustment expenses for reported claims and claims incurred but not yet reported (IBNR) as at the end of each accounting period. The initial provision is determined on the reported facts filed with the claim and then revised regularly, as more information on the claim becomes known. The provision does not represent the exact calculation of the liability owing to claimants, but is an estimate developed using Canadian accepted actuarial practices and Canadian insurance regulatory requirements. The estimate reflects an expectation of the ultimate cost of settlement and administration of claims. It involves an assessment based on the facts and circumstances of the events reported in the claim, the Corporation's experience with similar claims, historical trends involving claim payments, claim severity, the effect of inflation on reported and future claims, court decisions and the time frame anticipated to settle and pay the claim.

This provision is refined on a continual basis as prior fiscal year claims are settled and additional claims are reported and settled. There may be significant time delays from the occurrence of the insured event and when it is reported. If this occurs near the year-end date, estimates are made as to the value of these claims based on information known to the Corporation. As well, uncertainty exists for reported claims that are not settled, as all necessary information may not be available. Thus, with the level of uncertainty involved in the claim process until the final settlement occurs, current reserves may not be sufficient. As permitted by Canadian GAAP, the

Corporation only discounts long-term disability claims included in this provision. Any adjustments to these estimates, both positive (a redundancy or excess) and negative (a deficiency), are included in the provision for unpaid claims and are reflected as claims incurred in the current year's Consolidated Statement of Operations.

Impairment of investments
The establishment of an impairment of an investment security requires a number of judgments and estimates. Management performs a quarterly analysis of investment holdings to determine if declines in market value of a particular investment are other than temporary. This analysis includes:

- identifying all security holdings in an unrealized loss position that have existed for at least six months;
- assessing if declines in market value are other than temporary for debt security holdings based on the investment grade credit rating from third-party security rating agencies; and,
- determining the necessary provision for declines in market value that are considered other than temporary based on the analysis performed.

Reinsurance
Reinsurance recoverable includes amounts for expected recoveries related to claim liabilities, as well as the portion of the reinsurance premium that has not yet been earned. The cost of reinsurance is accounted for over the terms of the underlying reinsurance policies using assumptions consistent with those used to account for the policies. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves and are reported in the Consolidated Statement of Financial Position. The ceding of insurance does not discharge the Corporation's primary liability to its insureds. An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions.

Income taxes
The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the consolidated financial statements. In determining the provision for income taxes, the Corporation interprets tax legislation in a variety of jurisdictions and makes assumptions about the expected timing of the reversal of future tax assets and liabilities and the valuation of future income tax assets.

Management makes assumptions regarding the value of future tax assets using a valuation allowance. This allowance is based on management's assessment of whether it is more likely than not that the Corporation will utilize tax assets before they expire. This assessment is based on expected future earnings, tax rates, the amount of taxable income in future years and the timing of the reversal of future tax liabilities. The assessment of the valuation of future taxes in the current year is discussed in the above section, Consolidated Statement of Financial Position.

Employees' future benefits
The Corporation's benefit expense for its defined benefit pension plan and defined benefit service recognition plans is calculated by the Corporation's external benefits actuary utilizing management's best estimate of critical assumptions. These critical assumptions consist of: expected plan investment performance; salary escalation; age at retirement; mortality of members; and, future pension indexing. Management reviews and adjusts these assumptions as required on an annual basis. The financial impact from changing these assumptions, along with actual experience being different from the assumptions, is reflected in either the recognized pension asset on the Consolidated Statement of Financial Position or in administrative expenses on the Consolidated Statement of Operations.

The end of period discount rate is determined at each year-end using market rates of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

Further details of the Corporation's defined benefit plans are contained in note 16 to the consolidated financial statements.

RISK MANAGEMENT

Understanding and managing risk is important to the Corporation's success. Risks represent potential threats to meeting the objectives set forth by the Corporation and affect its ability to take advantage of opportunities as they present themselves. On a semi-annual basis, senior management assesses the risks by identifying, measuring and prioritizing them, based on their estimated likelihood of occurrence and severity of loss to the Corporation. This process yields a risk profile for the Corporation. Mitigation plans are developed to minimize the impact or likelihood of occurrence of the identified risks, based on their risk ranking. The corporate risk profile is reviewed, and input provided by the Audit and Finance Committee of the Board of Directors. The Corporation's Audit Services branch also uses the risk profile in developing its annual work plan.

The following are the main risks that the Corporation manages to reduce impact on its operations and profitability. It is not an exhaustive list of all risks the Corporation faces.

Claims reserve forecasting (or reserve risk) represents the difficulty in forecasting claims that could lead to an inability to meet the liability for unpaid claims when they come due and inadequate claims liability estimates within financial results. The Corporation maintains a reserve to cover its liability for future payments on reported claims and an estimate for claims that have not yet been reported. These amounts are estimates and the ultimate payment on these claims may differ from the estimate.

The inability to meet claims obligations could lead to a loss of public confidence in the Corporation as well as far-reaching consequences such as the loss of policy renewals. Inaccurate claims liability estimates also lead to volatility in financial results. Detailed annual reviews of case reserves are conducted each year by the claims department. As well, an in-house actuarial unit monitors claims reserve adequacy throughout the year and undertakes actuarial valuations for the Corporation, and each of its subsidiaries, at least annually.

Volatility of out-of-province financial results will occur, especially in those operations with a small policy base, based on claims activity. This will particularly be the case at the start-up stages of these operations. It is understood that it is not always possible for all segments or markets to be profitable each year. Still, the Corporation closely monitors and manages its expansion operations, including adhering to a disciplined underwriting approach, to reduce the risk of poor operating results. Head office underwriting expertise and experience combined with staff with local market knowledge are used to ensure the Corporation obtains the desired type of business. The focus of expansion is on spreading risk by diversifying policies issued geographically and by product line and increasing the profitable premium base in business regions.

Legal and regulatory risk exists, especially where the Corporation's operations are regulated, being Alberta, Ontario and the Maritimes. In these jurisdictions, the Corporation may be subject to adverse rulings by the courts as a result of legal challenges to existing coverages. The Corporation continues to keep abreast of market and regulatory changes in out-of-province markets and monitors legal challenges. The Corporation's auto insurance pricing must be submitted for approval by the provincial regulator in these provinces. These regulators may, notwithstanding the Corporation's detailed analysis, require changes to proposed rates.

Privacy management risk relates to the release or use of private information without proper authorization. The improper release of information could cause financial and reputational harm. To reduce this risk, the Corporation has assigned a Chief Privacy Officer and developed a privacy management framework that meets legislative requirements imposed by *The Freedom of Information and Protection of Privacy Act* (Saskatchewan) and other applicable privacy legislation. The framework ensures that policies and practices are in place to protect privacy and personal information maintained by the Corporation. It has controls that limit access to the data. All employees, including the Board of Directors, are subject to the Corporation's Code of Ethics and Conduct and its Information Technology policy. All employees are also required to take training in proper management of private information. As well, during 2006 a whistleblower policy and hotline were implemented.

Third-party or employee fraud risk exists and includes the commitment of fraudulent acts by claimants, as well as the risk of fraudulent activities by staff and other business partners. These and other illegal acts can have far-reaching financial implications for the business overall, resulting in harm to corporate reputation and weakening customer confidence in the Corporation. The use of internal and external auditors is an existing mitigating factor. The Corporation continues to use and improve its Audit Services branch, its Special Investigations Unit and its overall control systems to control fraudulent activities. A whistleblower policy and hotline established during 2006 are also expected to mitigate this risk.

Responsiveness to business needs is important as the Corporation needs to be able to make business changes in the time frames required to remain competitive or meet regulatory deadlines. Competing with other property and casualty insurers across Canada requires that SGI CANADA be able to respond quickly to changes in the market and take advantage of opportunities as they present themselves.

Underwriting risk results from a financial loss due to not properly pricing the risks being insured. The Corporation reduces this risk by maintaining a large underwriting database to help assess risk, by employing valuable and experienced underwriters, by diversifying policies being issued (both geographically and by product line) and targeting for a combined ratio below 100%. The Corporation also utilizes its Actuarial Services unit to perform rating applications and analysis. Automobile policies are written after a review of the driving record of the policyholder, claims experience and type of vehicle being insured. Auto insurance pricing must be submitted for approval by the provincial regulator in jurisdictions where the Corporation operates. These regulators may, notwithstanding the Corporation's detailed analysis, require changes to proposed rates. Property policies are based on a review of the type and physical condition of property, replacement value and claims experience. The Corporation will maintain its underwriting principles and will give up business when unprofitable pricing competition exists, but write more of that business once prices return to an acceptable level.

Risk to information systems involves the security of data from accidental or deliberate destruction and from outside intrusion. It also involves the security of corporate hardware from failure, destruction or theft, maintaining up-to-date versions of software/hardware, along with keeping abreast of changes in information technology. The Corporation secures data using modern systems of access and protection along with regular backups. It has developed and regularly reviews a business continuity plan, which includes provision for an alternative computing services site for major applications that can be instantly activated if needed.

Reinsurance risk relates to a financial loss due to inadequate coverage, default or financial failure of a reinsurer. The Corporation reviews annually its reinsurance requirements to determine the type and amount required for sustaining operations. Reinsurers are selected based on their financial strength, coverage available to the Corporation and the cost. Due to the number of international disasters in the last five years, reinsurance has

become more expensive but not cost prohibitive. The Corporation requires reinsurance to sustain and grow its operations. Reinsurance does not relieve the Corporation of its financial responsibilities to policyholders, but helps it to pay claims in the event of a catastrophic event. Reinsurance also allows the Corporation to diversify its insurance policy base.

Catastrophe exposure risk relates to losses arising from catastrophic events. With the Corporation having a significant portion of the Saskatchewan property insurance market, it is susceptible to large losses from major storms in Saskatchewan. To contain this risk, the Corporation purchases catastrophe reinsurance protection that reduces the potential impact from major losses as a result of catastrophic events. While the Corporation has a heavier geographic concentration of risk than other major insurance companies in Canada, it is less susceptible than other insurance companies to catastrophes from earthquakes and hurricanes because of the location of its insurance business.

Investing risk relates to changes in interest rates, foreign currency and market values. Lower interest rates impact the earnings of the investment fund that is used to pay claims and finance future growth. The returns from capital markets, both domestic and foreign, are uncertain and will fluctuate from year to year. A Statement of Investment Policies and Goals (SIP&G) is reviewed annually by internal and external investment consultants and is approved annually by the Board of Directors, as recommended by the Investment Committee of the Board. No derivative financial instruments are used to alter the effects of market changes and fluctuations. The main goal of the SIP&G is to have an investment policy and strategy that is based on prudence, regulatory guidelines and claim settlement patterns with a view to maximize long-term returns utilizing a conservative investment portfolio.

The investment manager follows the SIP&G, which provides guidelines for the asset mix of the portfolio regarding quality and quantity of debt, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market-value fluctuations by requiring investments in different pools and in domestic and foreign markets. Some of the quantity and quality investment limits are based on legislative requirements in The Insurance Companies Act (federal). The SIP&G also has rate of return standards for the portfolio and performance return measurement standards for the investment manager. The investment manager produces quarterly reports on the performance of assets under their management that are reviewed by corporate management and the Investment Committee of the Board of Directors.

Credit risk is the possibility that counterparties may not be able to meet payment obligations when they come due. A counterparty is any person from which cash or other forms of consideration are expected to extinguish a liability or obligation. The Corporation's investment policy limits debt instruments to those of high credit quality. The minimum quality standard for purchase of bonds and debentures is BBB, and for short-term investments is R-1, as rated by a recognized credit rating service. In addition, the Corporation's investment policy limits the amount of exposure with respect to any one issuer. The Corporation had no direct exposure to non-bank sponsored asset backed commercial paper during 2007 and its investment policy prohibits the purchase of non-bank sponsored asset backed commercial paper.

Foreign currency exposure arises from holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against foreign currencies result in a positive or negative effect on the fair value of investments. Foreign currency risk is managed by limiting holdings of foreign investments to a maximum of 14% of the market value of the entire investment portfolio.

OUTLOOK FOR 2008

In two of the past three years, the company's operations in Saskatchewan have been significantly impacted by weather-related storms and it is anticipated that the frequency and severity of these type of weather-related incidents will continue. As well, the Corporation anticipates the growth in Western Canada, fuelled by strong demand for commodities, will continue throughout 2008. While this will provide opportunities for premium growth for insurance companies, it is also having a significant impact on claim costs. The demand for commodities has created a labour shortage in Western Canada putting pressure on labour costs for the construction and automotive repair industries. As a result, insurance companies will have to ensure that pricing is closely monitored to reflect the growing costs related to weather events along with increasing labour costs in the repair industry.

In February 2008, the Alberta Court of Queen's Bench ruled that the entire Minor Injury Regulation 123/04 was null and void. This ruling removed the $4,000 cap on payment for soft tissue injuries that was enacted in October 2004 in Alberta. This ruling is under appeal and brings considerable uncertainty to the financial returns for auto insurance products for the insurance companies operating in this market.

The Corporation intends to build on the success of the first full year of operations in Alberta market with continued growth in 2008. Managed growth in 2008 in New Brunswick and Nova Scotia will continue to spread its geographic insurance risk out of Western Canada. The auto segment in Ontario will remain soft in 2008, but the Corporation expects another strong year of profitability from its Ontario operations. As in prior years, the Corporation continues to focus on strong underwriting fundamentals and providing a high level of customer service to brokers in order to meet the current challenges.

Caution Regarding Forward-Looking Statements

Forward-looking statements include, among others, statements regarding SGI CANADA's objectives, strategies and capabilities to achieve them. These statements are not historical facts. Forward-looking statements are typically identified by words such as believe, expect, will, would, should, expect, may and could, or other comparable words. These statements involve risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements.

Forward-looking statements are based on estimates and assumptions made by the Corporation in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that it believes are appropriate in the circumstances. Many factors could cause actual results, performance or achievements, or future events or developments, to differ materially from those expressed or implied by the forward-looking statements. Some of these factors that could cause such differences are discussed under the section on Risk Management in this MD&A. The Risk Management section is not a comprehensive list of all possible factors, and other factors could also adversely affect the Corporation's results.

SGI CANADA deems that the assumptions built into the forward-looking statements are plausible; however, all factors should be considered carefully when making decisions with respect to the Corporation. Undue reliance should not be placed on the Corporation's forward-looking statements, which only apply as of the date of this MD&A document. The Corporation does not undertake to update any forward-looking statements that may be made from time to time by or on its behalf.

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements are the responsibility of Management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of Management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Saskatchewan Government Insurance (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit and Finance Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Jon Schubert
President and Chief Executive Officer

Don Thompson
Chief Financial Officer

March 13, 2008

ACTUARY'S REPORT

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities of SGI CANADA for its consolidated statement of financial position at December 31, 2007 and their change in the consolidated statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of some policy liabilities not reflect the time value of money, which is permissible under Canadian generally accepted accounting principles for financial reporting purposes. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.

Cara Low

Cara Low
Assistant Vice President, Corporate Actuary
Saskatchewan Government Insurance
Fellow, Canadian Institute of Actuaries

March 13, 2008

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Government Insurance as at December 31, 2007 and the consolidated statements of operations, comprehensive income, changes in Province of Saskatchewan's equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
March 13, 2008

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31	2007	2006
	(thousands of $)	
Assets		
Cash and cash equivalents (note 3)	$ 34,994	$ 24,054
Accounts receivable (note 4)	88,372	96,081
Deferred policy acquisition costs	43,347	39,354
Future income taxes (note 14)	1,903	3,150
Reinsurers' share of unearned premiums	8,862	8,173
Investments (note 5)	481,127	444,464
Net investment in capital lease (note 6)	1,611	2,011
Unpaid claims recoverable from reinsurers (note 9)	33,824	32,273
Property, plant and equipment (note 7)	10,154	10,881
Other assets (note 8)	2,975	2,022
	$ 707,169	$ 662,463
Liabilities		
Accounts payable and accrued charges	$ 21,530	$ 34,696
Dividend payable	10,535	17,378
Premium taxes payable	14,408	13,439
Amounts due to reinsurers	5,330	4,892
Unearned reinsurance commissions	1,864	1,719
Unearned premiums	177,189	163,434
Provision for unpaid claims (note 9)	285,567	263,514
	516,423	499,072
Non-controlling interest	**1,709**	1,792
Province of Saskatchewan's equity		
Equity advances (note 10)	80,000	80,000
Retained earnings	94,028	81,599
Accumulated other comprehensive income (note 2)	15,009	–
	189,037	161,599
	$ 707,169	$ 662,463

Commitments and contingencies (note 21)
(see accompanying notes)

On behalf of the Board:

Merin Coutts – Director

W.J.A. (Bill) Heidt – Director

CONSOLIDATED STATEMENT OF OPERATIONS

year ended December 31	2007	2006
	(thousands of $)	
Gross premiums written	$ 339,528	$ 318,752
Net premiums written	$ 320,677	$ 301,184
Net premiums earned (note 11)	**$ 307,862**	$ 290,807
Claims incurred (note 11)	187,566	157,070
Commissions (note 11)	63,503	60,519
Administrative expenses (note 11)	40,717	34,781
Premium taxes (note 11)	14,850	14,039
Facility Association participation (note 19)	(133)	(597)
Total claims and expenses	306,503	265,812
Underwriting profit	**1,359**	24,995
Investment earnings (note 12)	34,423	30,551
Income before deficiency (excess) from service agreement, income taxes and non-controlling interest	**35,782**	55,546
Deficiency (excess) from service agreement (note 13)	(1,532)	1,588
Income before income taxes and non-controlling interest	**37,314**	53,958
Income taxes (note 14)	2,055	1,377
Income after income taxes and before non-controlling interest	**35,259**	52,581
Non-controlling interest	166	480
Net income	**$ 35,093**	$ 52,101

(see accompanying notes)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

year ended December 31	2007 (thousands of $)
Net income	$ 35,093
Other comprehensive loss, net of income taxes:	
Unrealized loss on available for sale financial assets arising during the year	(1,894)
Income tax recovery on unrealized losses	723
	(1,171)
Reclassification for realized gains on sale of investments included in operations, net of investment write downs of $312,000	(9,497)
Net income tax recovery on losses	(118)
	(9,615)
Other comprehensive loss	(10,786)
Comprehensive income	$ 24,307

(see accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN PROVINCE OF SASKATCHEWAN'S EQUITY

year ended December 31	2007	2006
	(thousands of $)	
Equity advances		
Balance, end of year	**$ 80,000**	$ 80,000
Retained earnings		
Balance, beginning of year	$ 81,599	$ 63,364
Change in accounting policy (note 2)	146	–
Net income	35,093	52,101
Dividend	(22,810)	(33,866)
Balance, end of year	**$ 94,028**	$ 81,599
Accumulated other comprehensive income		
Balance, beginning of year	$ –	$ –
Change in accounting policy (note 2)	25,795	–
Other comprehensive loss	(10,786)	–
Balance, end of year	**$ 15,009**	$ –
Total Province of Saskatchewan's equity	**$ 189,037**	$ 161,599

(see accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS

year ended December 31	2007	2006
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income	$ 35,093	$ 52,101
Non-cash items:		
Amortization	1,175	2,451
Net realized gain on disposal of investments	(9,809)	(9,513)
Future income taxes (recovery)	1,000	(341)
Investment write downs	312	27
Non-controlling interest	(83)	169
Loss from investments accounted for on the equity basis	788	283
Change in non-cash operating items (note 15)	24,946	5,416
	53,422	50,593
Investing activities		
Purchases of investments	(822,421)	(651,482)
Proceeds on sale of investments	809,445	614,479
Repayment of capital lease	400	361
Purchases of property, plant and equipment	(252)	(89)
	(12,828)	(36,731)
Financing activities		
Dividends paid	**(29,654)**	(23,757)
Increase (decrease) in cash and cash equivalents	10,940	(9,895)
Cash and cash equivalents, beginning of year	24,054	33,949
Cash and cash equivalents, end of year	**$ 34,994**	$ 24,054
Supplemental cash flow information:		
Income taxes paid	$ 1,823	$ 2,273

(see accompanying notes)

December 31, 2007

1. NATURE OF OPERATIONS

Saskatchewan Government Insurance (the Corporation or SGI), which operates under the trade name of SGI CANADA, conducts a property and casualty insurance business in the province of Saskatchewan and in other provinces of Canada through its wholly owned subsidiary, SGI CANADA Insurance Services Ltd. SGI CANADA Insurance Services Ltd. operates directly in Alberta and Manitoba, in Ontario through its wholly owned subsidiary Coachman Insurance Company (Coachman) and in Prince Edward Island, New Brunswick and Nova Scotia through its 75% owned subsidiary, The Insurance Company of Prince Edward Island (ICPEI).

In many provinces in Canada, automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia and represent approximately 8.4% (2006 – 7.5 %) of the Corporation's consolidated net premiums earned.

SGI was established as a branch of the public service by *The Government of Saskatchewan Act, 1944*, reorganized pursuant to *The Saskatchewan Government Insurance Act, 1946*, and continued under the provisions of *The Saskatchewan Government Insurance Act, 1980*. SGI also acts as administrator of the Saskatchewan Auto Fund under the provisions of *The Automobile Accident Insurance Act*. As a provincial Crown corporation, the Corporation is not subject to federal or provincial income taxes, however SGI CANADA Insurance Services Ltd., Coachman and ICPEI are subject to federal and provincial income taxes.

As a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the consolidated financial results of the Corporation are included in the consolidated financial statements of CIC.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Change in accounting policies

Effective January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook, Section 1530, Comprehensive Income and Section 3855, Financial Instruments – Recognition and Measurement.

Section 1530 requires presentation of a Consolidated Statement of Comprehensive Income, as included in these consolidated financial statements. Comprehensive income is comprised of net income and other comprehensive income (OCI). OCI represents changes in shareholders' equity during a period arising from transactions and other events with non-owner sources, other than net income. The change in OCI is recorded as accumulated other comprehensive income (AOCI) on the Consolidated Statement of Financial Position. The Corporation's OCI is comprised of the change in unrealized gains and losses on those investments designated as available for sale. Those unrealized gains and losses are included in accumulated other comprehensive income (AOCI) on the Consolidated Statement of Financial Position. When the underlying investments are subsequently sold or written down, the resulting realized gain or loss is released from AOCI into investment earnings in the Consolidated Statement of Operations.

Section 3855 establishes standards for recognizing and measuring financial assets and financial liabilities. The measurement basis depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial instruments classified as held for trading are measured at fair value and changes in fair value are recognized in net income. Financial instruments classified as available for sale, are measured at fair value with changes in fair value recorded in other comprehensive income, however, unrealized losses considered other than temporary continue to be recognized as a decrease to net income. The criteria to determine whether an unrealized loss is considered other than temporary has not changed under the new section. Financial instruments designated as held to maturity, loans and receivables, or other financial liabilities are measured at amortized cost using the effective interest rate method.

Prior to January 1, 2007, the Corporation amortized the purchase discount or premium from its investments by utilizing the straight-line method over the expected life of the investment. By adopting Section 3855, as of January 1, 2007, the Corporation is now using the effective interest rate method to calculate amortization.

The Corporation has designated its cash and cash equivalents and investments as available for sale, except for investments accounted for on the equity basis, which are exempt from Section 3855. Accounts receivable were designated as loans and receivables. Accounts payable, dividends payable and premium taxes payable were designated as other financial liabilities. The net investment in capital lease, the accrued pension asset, unpaid claims recoverable from reinsurers, amounts due to reinsurers and the provision for unpaid claims are exempt from Section 3855. The Corporation has no financial instruments designated as held for trading or held to maturity.

The adoption of these new sections was applied as of January 1, 2007, without restatement of comparative figures. The effect of the adoption at January 1, 2007 was to increase the carrying value of investments from $444,464,000 to $470,888,000, increase AOCI by $25,795,000 and decrease the future income taxes asset by $629,000. As a result of the changes in the carrying value of investments, the discount rate used in the actuarial determination of the provision for unpaid claims also changed. The impact of this change was a decrease to the provision for unpaid claims of $146,000 with an offsetting adjustment to opening retained earnings of $146,000.

Consolidation
The consolidated financial statements include the accounts of the Corporation and the consolidated accounts of its 100% owned subsidiaries, SGI CANADA Insurance Services Ltd. and Coachman, and its 75% owned subsidiary, ICPEI. All inter-company accounts and transactions have been eliminated on consolidation.

Measurement uncertainty
The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 9), investment valuation (note 5), income taxes (note 14) and employee future benefits (note 16).

Investments
All investments are carried at fair value, except preferred shares and investments accounted for on the equity basis. The fair value of short-term investments is based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments. The fair value of bonds and debentures and common shares is determined based on quoted market values, based on the latest bid prices. The fair value of pooled equity funds is based on the quoted market values of the underlying investments, based on the latest bid prices. The fair value of the pooled mortgage fund is based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using interest rates which reflect the term and credit risk associated with the mortgage.

Preferred shares are carried at cost as the fair value cannot be estimated reliably. Investments accounted for on the equity basis are recorded using the equity method, whereby the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

The Corporation records its investment purchases and sales on a trade-date basis, being the date when the transactions are entered into.

Investment earnings
The Corporation recognizes interest, premium financing and capital lease revenue as earned, dividends when declared, pooled equity fund revenue when a distribution is declared, and investment gains and losses when realized.

Interest revenue includes amortization of any premium or discount recognized at date of purchase of the security. Amortization is calculated using the effective interest rate method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Transaction costs are included in the acquisition cost of individual investments. Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

When the fair value of an investment falls below its cost, and the decline is determined to be other than temporary, a loss equivalent to the difference between cost and fair value is recorded in investment earnings as an investment write down.

Foreign currency translation
Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on investments designated as available for sale are included in other comprehensive income until realized, at which time they are reclassified from accumulated other comprehensive income to investment earnings. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums
Premiums written are taken into income over the terms of the related policies, no longer than 12 months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Provision for unpaid claims
The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting, except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Reinsurance ceded
Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes
The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Employees' future benefits
The Corporation provides a defined benefit pension plan and a defined contribution pension plan that provide retirement benefits for its employees.

Under the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to income.

For the defined benefit plan:

(i) For the purpose of calculating the expected return on plan assets, those assets are valued at fair value, which approximates market value.
(ii) Pension obligations are determined by an independent actuary, using the projected benefit method, prorated on service and management's best estimate assumptions of expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing, based upon the consumer price index.
(iii) The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.
(iv) Past service costs from plan amendments and the transitional asset are amortized on a straight-line basis over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.

(v) The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.

The Corporation provides defined benefit service recognition plans for both management and in-scope (union) employees for the purpose of providing certain retirement benefits. The cost of the plans is determined using the projected benefit method prorated on service.

Cash and cash equivalents
Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand less outstanding cheques.

Deferred policy acquisition costs
Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Capital lease
Investment earnings related to the direct financing lease are recognized in a manner that produces a constant rate of return on the investment in the lease. The net investment in the lease is composed of net minimum lease payments less unearned finance income.

Property, plant and equipment
Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Building	40 years
Computer hardware, system costs and other equipment	3-5 years

Goodwill
Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the Statement of Operations.

Future accounting policy changes
The CICA issued three new accounting standards that became effective for the Corporation on January 1, 2008. These standards are Handbook Section 1535, Capital Disclosures (Section 1535), Handbook Section 3862, Financial Instruments – Disclosures (Section 3862) and Handbook Section 3863, Financial Instruments – Presentation (Section 3863).

Section 1535 requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

Section 3862 and Section 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation. The new standards do not have a significant impact on the presentation requirements; however, they place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

3. CASH AND CASH EQUIVALENTS

	(thousands of $) 2007	2006
Treasury bills	$ 39,905	$ 33,504
Cash on hand, net of outstanding cheques	(4,911)	(9,450)
Total cash and cash equivalents	$ 34,994	$ 24,054

The average effective interest rate on treasury bills is 4.3% (2006 – 4.3%)

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $) 2007	2006
Due from insureds	$ 45,745	$ 38,897
Due from brokers	31,307	29,837
Facility Association receivable (note 19)	3,675	4,264
Accrued investment income	3,620	3,464
Amounts recoverable on claims paid	1,104	1,004
Due from reinsurers	911	1,450
Income taxes receivable	949	246
Computer purchase plan receivable	566	546
Other	495	415
Investment proceeds receivable	–	15,958
Total accounts receivable	$ 88,372	$ 96,081

Included in due from insureds is $43,219,000 (2006 – $37,701,000) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment earnings that would have been earned on such premium had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings over the period of the policy.

5. INVESTMENTS

As a result of the adoption of CICA Handbook, Section 3855 (note 2), the basis for the carrying value for investments has changed effective January 1, 2007. The carrying value of the Corporation's investments are as follows:

	(thousands of $)		
	December 31 2007	January 1 2007	December 31 2006
Short-term investments	$ 41,863	$ 19,846	$ 19,846
Bonds and debentures	325,170	334,474	332,698
Canadian common shares	43,750	44,075	27,629
U.S. common shares	13,779	14,095	11,415
Pooled funds:			
– Canadian equity	12,888	12,970	12,419
– United States equity	4,612	4,516	4,265
– Non-North American equity	16,813	19,823	15,565
– Mortgage	19,535	–	–
Preferred shares	735	735	735
Mortgages	–	16,734	16,272
	479,145	467,268	440,844
Investments accounted for on the equity basis	1,982	3,620	3,620
Total investments	$ 481,127	$ 470,888	$ 444,464

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Short-term investments:
Short-term investments are comprised of treasury bills with a maturity of less than one year, but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 4.3% (2006 – 4.1%) and an average remaining term to maturity of 109 days (2006 - 99 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

(ii) Bonds and debentures:
The Corporation's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. Foreign currency exposure is limited to 5% of the market value of the bond portfolio and no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	(thousands of $)			
	2007		2006	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	$ –	–	$ 100	4.6%
After one through five	154,873	4.3%	176,732	4.4%
After five	9,812	4.6%	22,454	3.9%
Canadian provincial & municipal:				
One or less	–	–	177	5.8%
After one through five	35,455	5.5%	28,123	5.5%
After five	28,501	5.0%	29,102	5.2%
Canadian corporate:				
One or less	6,427	4.5%	25	7.0%
After one through five	49,429	5.0%	60,028	4.6%
After five	40,673	4.7%	15,957	4.9%
Total bonds & debentures	$ 325,170		$ 332,698	

(iii) Common shares:
Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 2.0% (2006 – 2.3%).

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's common shares portfolio. As well, no one holding may represent more than 10% of the voting shares of any corporation.

(iv) Pooled funds:
The Corporation owns units in Canadian, United States and non-North American pooled equity funds and a pooled mortgage fund. These pooled funds have no fixed distribution rate. Fund returns are based on the success of the fund managers.

(v) Preferred shares:
The preferred share investment is a private placement and is not traded on a listed exchange. It provides for a 6.75% annual dividend, payable semi-annually, for the first five years. The rights of these shares will allow the holder to convert the preferred shares into that entity's common shares or allows the entity to redeem the preferred shares starting in June 2009. The effective dividend rate is 3.4% (2006 – 3.4%).

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's portfolio. As well, no one holding may represent more than 10% of the voting shares of any corporation.

(vi) Investments accounted for on the equity basis:
The Corporation has an 8% (2006 – 9%) ownership interest in a crop hail insurance business and the right to receive an additional 16% (2006 – 27%) of the net income or loss from this business through preferred share ownership in other crop hail insurance companies. During the year, the Corporation disposed of a portion of its interest in the crop hail insurance business and the other crop hail insurance companies for cash consideration of $916,000, resulting in a net gain on sale of $185,000.

Through a subsidiary, the Corporation has a 21.25% (2006 – 25%) ownership interest in Charlie Cooke Insurance Agency Ltd., and a 25% ownership interest in Atlantic Adjusting & Appraisals Ltd. and Maritime Finance & Acceptance Corporation. The Corporation's ownership interest in Charlie Cooke Insurance Agency Ltd. declined by 3.75% during the year as a result of treasury shares issued to a new shareholder. A dilution gain of $76,000 was recorded on this transaction.

The fair value of investments accounted for on the equity basis is considered to approximate book value.

(vii) Unrealized loss positions:
The following table presents available for sale investments with unrealized losses at December 31, 2007, where the decline is considered temporary. The unrealized losses are recorded as a component of accumulated other comprehensive income.

	(thousands of $) 2007	
	Fair Value	Unrealized Losses
Bonds and debentures:		
– Government of Canada	$ 69,871	$ (217)
– Canadian provincial & municipal	29,911	(293)
– Canadian corporate	73,849	(1,417)
Canadian common shares	9,488	(766)
U.S. common shares	3,281	(385)
	$ 186,400	$ (3,078)

As at December 31, 2007, the cost of 229 available for sale investments exceeded their fair value by $3,078,000. The unrealized losses on the bonds and debentures arose primarily from an increase in interest rates. For equities, unrealized losses are primarily the result of timing of the market prices or investment specific business environment factors. Since the Corporation has the ability to hold these securities until there is a recovery of fair value, which may be at maturity for bonds and debentures, these unrealized losses are considered temporary in nature.

The Corporation conducts a quarterly review to identify and evaluate investments that show indications of impairment. An investment is considered impaired if its fair value falls below its cost, and a write down is recorded in investment earnings when the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer, and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery.

6. NET INVESTMENT IN CAPITAL LEASE

The Corporation, as lessor, has a 37% interest in a lease agreement with the Ministry of Government Services, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Sask. The lease transfers substantially all benefits and risks associated with the ownership of the property to the lessee.

The Corporation's net investment in the capital lease includes the following:

	(thousands of $) 2007	2006
Total minimum lease payments receivable ($583,000 per year)	$ 1,894	$ 2,477
Unearned income	(283)	(466)
Net investment in capital lease	$ 1,611	$ 2,011

The fair value of the net investment in the capital lease is $1,833,000 (2006 – $2,355,000). The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

7. PROPERTY, PLANT AND EQUIPMENT

The components of the Corporation's investment in property, plant and equipment, as well as the related accumulated amortization, are as follows on the next page:

	(thousands of $) 2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 972	$ –	$ 972	$ 972
Building	23,124	14,073	9,051	9,773
Computer hardware, system costs and other equipment	16,420	16,289	131	136
Total	$ 40,516	$ 30,362	$ 10,154	$ 10,881

Amortization for the year is $979,000 (2006 – $904,000) and is included in administrative expenses on the Consolidated Statement of Operations.

8. OTHER ASSETS

Other assets are comprised of the following:

	(thousands of $) 2007	2006
Prepaid expenses	$ 1,866	$ 995
Accrued pension asset	628	546
Goodwill	481	481
Total	$ 2,975	$ 2,022

9. PROVISION FOR UNPAID CLAIMS

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a number of individuals, which necessarily involves risk that actual results may differ materially from the estimates.

Changes in the estimate for the provision for unpaid claims are as follows:

	(thousands of $) 2007	2006
Net unpaid claims – beginning of year	$ 231,241	$ 227,390
Change in accounting policies (note 2)	(146)	–
Payments made during the year relating to:		
Prior year claims	(65,871)	(69,897)
Prior year service agreement claims	(3,215)	(3,231)
Prior year Facility Association claims	(624)	(286)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(3,846)	(5,997)
Prior year estimated unpaid service agreement claims	(1,532)	1,588
Prior year estimated unpaid Facility Association claims	63	(902)
Net unpaid for claims of prior years	156,070	148,665
Provision for claims occurring in the current year	95,186	82,054
Provision for Facility Association claims occurring in the current year	487	522
Net unpaid claims – end of year	$ 251,743	$ 231,241

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has not been provided because it is not practicable to determine fair value with sufficient reliability.

(ii) Type of unpaid claims:
The provision for unpaid claims is summarized by line of business as follows:

	(thousands of $) 2007			2006		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	$ 136,545	$ 23,913	$ 112,632	$ 136,480	$ 28,008	$ 108,472
Property	61,205	4,410	56,795	43,634	1,141	42,493
Liability	72,256	5,501	66,755	63,151	3,124	60,027
Assumed	8,313	–	8,313	8,148	–	8,148
Service agreement (note 13)	4,518	–	4,518	9,297	–	9,297
Facility Association (note 19)	2,730	–	2,730	2,804	–	2,804
Total	$ 285,567	$ 33,824	$ 251,743	$ 263,514	$ 32,273	$ 231,241

Included in the provision for unpaid claims are discounted amounts for certain injury benefits in the amount of $12,746,000 (2006 – $12,158,000). These claims have been discounted using a rate of 6% (2006 – 6%) which reflects expected claim settlement patterns and SGI CANADA's projected rate of return on its investment portfolio.

Included in the above amount is a provision for adverse development in the amount of $953,000 (2006 – $911,000).

The provision for unpaid claims includes a provision for unpaid reinsurance assumed claims of $8,313,000 (2006 – $8,148,000). The Corporation discontinued its practice of underwriting reinsurance-assumed business in 1985, but remains financially responsible for claims run-off on assumed contracts.

(iii) Structured settlements:
The Corporation settles some long-term disability claims by purchasing annuities from various financial institutions. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Consolidated Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants in the event the financial institutions default on the scheduled payments. As at December 31, 2007, no information had come to the Corporation's attention that would suggest any weakness or failure in the financial institutions from which it purchased annuities. The net present value of the scheduled payments as of the year-end date was $46,977,000 (2006 – $47,181,000).

10. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received equity advances from its parent, CIC, to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

11. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers. The policy of underwriting and reinsuring contracts of insurance limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $) 2007	2006
Dwelling and farm property	$ 500	$ 500
Unlicensed vehicles	500	500
Commercial property	1,000	1,000
Automobile and general liability	1,000	1,000
(subject to filling an annual aggregate deductible of)	1,500	1,500
Property catastrophe (health care)	7,500	7,500
Property catastrophe (non-health care)	8,500	8,500

The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

The following table sets out the amount by which reinsurance ceded has reduced (increased) the premiums earned, claims incurred, commissions, premium taxes and administrative expenses:

	(thousands of $) 2007	2006
Premium earned	$ 24,168	$ 21,909
Claims incurred	11,070	8,730
Commissions and premium taxes	2,524	2,208
Administrative expenses	1,230	1,115

The Corporation has adverse claim development reinsurance for pre-April 30, 2001 claims of Coachman Insurance Company, a wholly-owned subsidiary. The reinsurance has a $3.0 million deductible and provides coverage up to $8.0 million. In the current year, development on prior-year claims has had no effect on claims incurred and the related receivable (2006 – a decrease to claims incurred and an increase to the related receivable in the amount of $1,660,000). The total receivable at December 31, 2007 was $3,447,000 (2006 – $4,620,000).

12. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $) 2007	2006
Interest	$ 17,425	$ 14,934
Net realized gain on sale of investments	9,809	9,535
Pooled funds	4,164	2,657
Premium financing	2,819	2,565
Dividends	937	948
Capital lease	183	222
Investment write downs	(312)	(27)
Investments accounted for on the equity basis	(602)	(283)
Total investment earnings	$ 34,423	$ 30,551

13. SERVICE AGREEMENT

During 1998, a subsidiary of the Corporation, Coachman, issued an insurance policy to a vehicle rental company (the rental company). The policy provided bodily injury liability coverage on the rental company's vehicles driven by its customers. The rental company paid Coachman an annual premium under this policy between $100,000 and $120,000. At the same time, Coachman made an agreement that allowed the rental company to settle and pay all claims submitted by its customers. Because the insurance coverage was in the name of Coachman, the rental company was required to report to Coachman quarterly on the status of all reported claims and the provision for unpaid claims. As security to guarantee the provision for unpaid claims, a trust account was to be maintained in an amount that would meet the funding of the outstanding liabilities related to the policy.

The agreement with the rental company expired on March 31, 2005. Subsequent to the expiration of the contract, the rental company filed for voluntary receivership. During the receivership proceedings, it was determined that the rental company had not reported claims correctly to the Corporation, nor had it deposited the correct amounts in the trust account. The Corporation has since collected the balance held in the trust account of $1,235,000. Review of the outstanding claims during the year resulted in a reduction of $1,532,000 to the provision for unpaid claims and has been included in operations in the current year as an excess from service agreement (2006 - deficiency of $1,588,000).

The Corporation is continuing legal action against certain of the parties involved to recover the shortfall related to this service agreement. Any recovery will be accounted for in the year of receipt.

14. INCOME TAXES

The Corporation's provision for income taxes is as follows:

	(thousands of $)	
	2007	2006
Current	$ 1,055	$ 1,718
Future (recovery)	1,000	(341)
Total income taxes	$ 2,055	$ 1,377

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes and non-controlling interest. The reasons for the differences are as follows:

	(thousands of $) 2007	2006
Income before income taxes and non-controlling interest	$ 10,940	$ 14,928
Combined federal and provincial tax rate	36.01%	36.47%
Computed tax expense based on combined rate	$ 3,939	$ 5,444
Increase (decrease) resulting from:		
Changes to enacted tax rates	29	–
Non-deductible expenses for tax purposes	30	25
Investment earnings not subject to taxation	(71)	(81)
Valuation allowance	(1,896)	(4,030)
Other	24	19
Total income taxes	$ 2,055	$ 1,377

The tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are presented below:

	(thousands of $) 2007	2006
Future income tax assets		
Tax loss carryforward	$ 1,993	$ 4,927
Provision for unpaid claims	1,836	1,794
Other	29	27
	3,858	6,748
Less: valuation allowance	–	(1,896)
Total future income tax assets	3,858	4,852
Future income tax liabilities		
Investments	1,158	1,073
Unpaid claims recoverable from reinsurers	797	629
Total future income tax liabilities	1,955	1,702
Net future income tax assets	$ 1,903	$ 3,150

The Corporation has non-capital loss carryforwards of approximately $5,949,000 (2006 – $13,639,000) that expire in 2015.

15. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of $) 2007	2006
Accounts receivable	$ 7,938	$ (4,994)
Deferred policy acquisition costs	(3,993)	(2,591)
Reinsurers' share of unearned premiums	(689)	(690)
Unpaid claims recoverable from reinsurers	(1,551)	(4,858)
Other assets	(953)	(1,541)
Accounts payable and accrued charges	(13,166)	1,131
Premium taxes payable	969	655
Amounts due to reinsurers	438	(1,693)
Unearned reinsurance commissions	145	188
Unearned premiums	13,755	11,100
Provision for unpaid claims	22,053	8,709
	$ 24,946	$ 5,416

16. EMPLOYEE FUTURE BENEFITS

The Corporation incurs retirement benefit costs associated with its defined benefit pension plan, defined contribution plan and its defined benefit service recognition plans. The Corporation allocates a portion of these costs to the Saskatchewan Auto Fund for those employees of the Corporation who provide service to it. These amounts have been disclosed separately in this note.

(i) Defined benefit pension plan:
The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1980. Current service costs of this plan are charged to operations on the basis of actuarial valuations, the most recent valuation being as of December 31, 2005. The next valuation will have a valuation date of December 31, 2008.

The actuarial valuation includes a provision for uncommitted and ad hoc benefit increases, and is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimate, therefore, involves risks that the actual amount may differ materially from the estimate.

Results from the latest valuation as at December 31, 2005, projected to December 31, 2007, and the major assumptions used in the valuation, are as follows:

Economic assumptions:	2007	2006
Discount rate – beginning of period	5.00%	5.00%
Discount rate – end of period	5.50%	5.00%
Expected return on plan assets	6.25%	6.25%
Inflation rate	2.50%	2.50%
Expected salary increase	3.50%	3.50%
Post-retirement index	50% of CPI	50% of CPI
Remaining service life of active members in years (EARSL)	3	4

Information about the Corporation's defined benefit pension plan is as follows:

	(thousands of $) 2007	2006
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	$ 45,215	$ 45,181
Current service cost	220	212
Interest cost	2,159	2,170
Benefits paid	(4,458)	(3,954)
Actuarial (gain) loss on accrued benefit obligation	(1,894)	1,606
Accrued benefit obligation, end of year	$ 41,242	$ 45,215

	(thousands of $) 2007	2006
Plan assets		
Fair value of plan assets, beginning of year	$ 45,740	$ 45,280
Actual return on plan assets	1,273	4,332
Employer contributions	113	30
Employee contributions	56	52
Benefits paid	(4,458)	(3,954)
Fair value of plan assets, end of year	$ 42,724	$ 45,740
Funded status – plan surplus	$ 1,482	$ 525
Unamortized transitional asset	(1,219)	(1,827)
Unamortized net actuarial losses	2,724	2,961
Valuation allowance	(964)	–
Accrued pension asset	$ 2,023	$ 1,659

As at December 31, 2007, $628,000 (2006 – $546,000) of the accrued pension asset had been recorded by the Corporation (note 8) and $1,395,000 (2006 – $1,113,000) had been allocated to the Saskatchewan Auto Fund.

The asset allocation of the defined benefit pension plan assets is as follows:

		% of Plan Assets at December 31	
Asset Category	Target Range	2007	2006
Short-term investments	3 - 20%	9%	3%
Bonds and debentures	40 - 70%	52%	55%
Canadian equities	10 - 30%	15%	16%
U.S. equities	Total foreign	12%	13%
Non-North American equities	18 - 30%	12%	13%

Pension income for the defined benefit pension plan is as follows:

	(thousands of $) 2007	2006
Current service cost	$ 164	$ 160
Interest cost	2,159	2,170
Expected return on pension plan assets	(2,725)	(2,709)
Amortization of net transitional asset	(608)	(608)
Amortization of actuarial gains	(205)	(205)
Valuation allowance	964	–
Pension income	$ (251)	$ (1,192)

During the year, $173,000 (2006 – $800,000) of pension income was allocated to the Saskatchewan Auto Fund. The Corporation recorded the remaining $78,000 (2006 – $392,000) of pension income in administrative expenses on the Consolidated Statement of Operations.

(ii) Defined contribution pension plan:
The Corporation also has employees who are members of the Capital Pension Plan, which is a defined contribution pension plan. The Corporation's financial obligation is limited to matching employee contributions of 5.5% to the plan.

Pension expense for the defined contribution pension plan is $4,867,000 (2006 – $4,256,000). During the year, $3,218,000 (2006 – $2,857,000) of pension expense was allocated to the Saskatchewan Auto Fund. The Corporation recorded the remaining $1,649,000 (2006 – $1,399,000) of pension expense in administrative expenses on the Consolidated Statement of Operations.

(iii) Defined benefit service recognition plans:
Significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation at December 31 are:

	2007	2006
Discount rate	5.25%	4.70%
Expected salary increase	6.00 – 8.00%	3.50%
EARSL – management	12	12
EARSL – in-scope	12	10

Information about the defined benefit service recognition plans is as follows:

	(thousands of $) 2007	2006
Benefit expense	$ 3,035	$ 2,764
Accrued benefit obligation	$ 17,950	$ 16,911
Unamortized past service costs, net actuarial losses and transitional asset	(10,103)	(10,888)
Accrued benefit liability	$ 7,847	$ 6,023

As at December 31, 2007, $5,411,000 (2006 – $4,043,000) of the accrued benefit liability was allocated to the Saskatchewan Auto Fund. The Corporation recorded the remaining $2,436,000 (2006 – $1,980,000) of accrued benefit liability in accounts payable and accrued charges on the Consolidated Statement of Financial Position.

17. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year-end are as follows:

	(thousands of $)	
Category	2007	2006
Accounts receivable	$ 595	$ 394
Deferred policy acquisition costs	7,072	6,674
Investments	4,035	4,752
Accounts payable and accrued charges	117	7
Dividends payable	10,535	17,378
Premium taxes payable	13,764	13,063
Unearned premiums	1,974	1,784
Provision for unpaid claims	1,357	1,706
Gross premiums written	4,707	4,624
Gross premiums earned	4,499	4,648
Claims incurred	1,463	2,408
Administrative expenses	1,961	1,920
Premium taxes	13,367	12,775
Investment earnings	268	279

The Corporation acts as administrator of the Saskatchewan Auto Fund. Administrative and claim adjustment expenses incurred by the Corporation are allocated to the Corporation and the Saskatchewan Auto Fund directly or on the basis of specific distributions. Amounts incurred by the Corporation and charged to the Saskatchewan Auto Fund were $96,657,000 (2006 – $83,346,000) and accounts payable were $3,007,000 (2006 – $1,613,000).

The Corporation has direct premiums that are brokered through Charlie Cooke Insurance Agency Ltd. (CCIA), pays claim adjusting fees to Atlantic Adjusting & Appraisals Ltd. (AAA) and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation (MFAC). These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business.

During the year, the Corporation provided CCIA a $450,000 loan for the purpose of purchasing a brokerage. The terms of the agreement provide for repayment in six annual instalments of $75,000 and require CCIA to maintain minimum premium limits. The loan has been recorded at its fair value of $381,000, calculated by discounting the scheduled instalments at an interest rate that reflects the term and credit risk associated with the loan. The difference of $69,000 has been recorded as an offset to interest revenue within investment earnings.

Transactions and amounts outstanding between the Corporation and CCIA, AAA and MFAC at year end are as follows:

Category	(thousands of $) 2007	2006
Accounts receivable	$ 928	$ 453
Accounts payable	648	407
Premiums written	8,651	8,102
Claims incurred	387	392
Commissions	1,838	1,487
Premiums financed	3,471	3,329

One of the Corporation's subsidiaries, ICPEI, has a director who is the owner of an organization that provided professional services to ICPEI. During the current year, these services amounted to $21,000 (2006 – $19,000).

Other related party transactions are described separately in the notes.

18. FAIR VALUES

The fair value of financial assets and liabilities, other than investments (notes 2 and 5), net investment in capital lease (note 6), unpaid claims and unpaid claims recoverable from reinsurers (notes 9 and 11), approximate carrying value due to their immediate or short-term nature.

19. FACILITY ASSOCIATION PARTICIPATION

Through its subsidiaries, the Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $) 2007	2006
Gross premiums written	$ 1,006	$ 432
Net premiums earned	$ 1,094	$ 646
Claims incurred	831	(64)
Commissions	100	67
Premium taxes	36	21
Administrative expenses	199	154
Total claims and expenses	1,166	178
Underwriting profit (loss)	(72)	468
Investment earnings	205	129
Net income	$ 133	$ 597
Facility Association receivable	$ 3,675	$ 4,264
Unearned premiums	462	523
Provision for unpaid claims	2,730	2,804
Facility Association payable	3,526	3,500

20. SEGMENTED INFORMATION

The Corporation provides property and casualty insurance through four operating segments: Saskatchewan, Manitoba and Alberta, Ontario and the Maritimes (where Maritimes represents Prince Edward Island, New Brunswick and Nova Scotia). These operating segments correspond with the legal entities that make up the Corporation, as discussed in note 1. The performance of each operating segment is reported separately to the Corporation's Board of Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2007	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
	(thousands of $)					
Net premiums written	$ 264,892	$ 21,859	$ 23,182	$ 10,744	$ –	$ 320,677
Net premiums earned	$ 257,384	$ 18,162	$ 22,836	$ 9,480	$ –	$ 307,862
Claims incurred	158,137	11,380	12,819	5,230	–	187,566
Other expenses	99,563	7,776	7,734	3,864	–	118,937
Underwriting profit (loss)	(316)	(994)	2,283	386	–	1,359
Investment earnings	26,690	2,530	4,391	812	–	34,423
Income before the following:	26,374	1,536	6,674	1,198	–	35,782
Excess from service agreement	–	–	(1,532)	–	–	(1,532)
Income taxes	–	407	1,189	459	–	2,055
Non-controlling interest	–	–	–	–	166	166
Net income	$ 26,374	$ 1,129	$ 7,017	$ 739	$ (166)	$ 35,093
Total assets	$ 518,389	$ 94,496	$ 117,355	$ 32,511	$ (55,582)	$ 707,169
Shareholders' equity	$ 113,824	$ 33,744	$ 34,816	$ 8,362	$ (1,709)	$ 189,037

2006	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
	(thousands of $)					
Net premiums written	$ 252,417	$ 14,136	$ 26,064	$ 8,567	$ –	$ 301,184
Net premiums earned	$ 246,790	$ 12,285	$ 23,352	$ 8,380	$ –	$ 290,807
Claims incurred	138,307	7,357	8,091	3,315	–	157,070
Other expenses	92,879	5,345	7,836	2,682	–	108,742
Underwriting profit (loss)	15,604	(417)	7,425	2,383	–	24,995
Investment earnings	23,426	2,225	4,073	827	–	30,551
Income before the following:	39,030	1,808	11,498	3,210	–	55,546
Deficiency from service agreement	–	–	1,588	–	–	1,588
Income taxes (recovery)	–	603	(442)	1,216	–	1,377
Non-controlling interest	–	–	–	–	480	480
Net income	$ 39,030	$ 1,205	$ 10,352	$ 1,994	$ (480)	$ 52,101
Total assets	$ 476,248	$ 77,731	$ 119,927	$ 30,129	$ (41,572)	$ 662,463
Shareholders' equity	$ 95,279	$ 31,853	$ 27,665	$ 8,594	$ (1,792)	$ 161,599

21. COMMITMENTS AND CONTINGENCIES

The Corporation is committed to a related party until 2011 for a telecommunications contract. At December 31, 2007, the remaining commitment was $556,000 (2006 – $3,713,000). A subsidiary of the Corporation, Coachman, has a lease for its office premises, expiring December 31, 2008, at an annual rent of $186,000.

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operations of the Corporation.

22. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2006 balances have been reclassified to conform to 2007 financial statement presentation.

CORPORATE GOVERNANCE

The Canadian Securities Administrators and securities regulators across Canada have implemented governance policies for publicly traded companies. National Policy 58-201 and National Instrument 58-101 came into effect on June 30, 2005. While Saskatchewan Government Insurance is not publicly traded and therefore not required to comply with these guidelines, they provide an excellent benchmark to measure good governance practices.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

Guideline	Saskatchewan Government Insurance
Composition of the Board 1. The board should have a majority of independent directors.	Yes. The board of directors is constituted of a majority of independent directors.
2. The chair of the board should be an independent director. Where this is not appropriate, an independent director should be appointed to act as "lead director." However, either an independent chair or an independent lead director should act as the effective leader of the board and ensure that the board's agenda will enable it to successfully carry out its duties.	Yes. The Chair of the board is an independent director.
Meetings of Independent Directors 3. The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance.	Yes. The board of directors has meetings in-camera, during which no management is in attendance, at every board and committee meeting, as well as on an as-required basis. In addition, the board holds regular in-camera meetings where non-independent directors and members of management are not in attendance.
Board Mandate 4. The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for:	Yes. The board has approved Terms of Reference (Mandate) which explicitly acknowledge responsibility for the stewardship of the Corporation.
(a) to the extent feasible, satisfying itself as to the integrity of the chief executive officer (the CEO) and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the organization;	Yes. The board has approved the corporate values to which all employees, including the CEO and senior management, are expected to operate.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

Guideline	Saskatchewan Government Insurance
(b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business;	Yes. The board of directors holds an annual strategic planning session. This session provides the basis of the Corporation's strategic plan and initiatives, as well as direction to management in the formation of Corporation's operating budget and goals. Further, the board is provided with periodic updates during the year on the progress of the corporate strategic initiatives.
(c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks;	Yes. The board of directors undertakes a process to identify the principal risks of the business, to achieve a proper balance between risks incurred and potential returns and to oversee the implementation of appropriate systems to manage the risks. The board of directors has charged the Audit and Finance committee with responsibility for this function and it reports to the board on those risks on at least an annual basis.
(d) succession planning (including appointing, training and monitoring senior management);	Yes. The board of directors has charged the Governance and Human Resources committee with responsibility for the Corporation's succession plan. The committee reviews the plan on an annual basis and reports its findings to the board.
(e) adopting a communication policy for the issuer;	Yes. The Corporation has a formal communications policy which has been approved by the board of directors.
(f) the issuer's internal control and management information systems; and	Yes.
(g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer.	Yes.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES

Guideline	Saskatchewan Government Insurance
The written mandate of the board should also set out: (i) measures for receiving feedback from stakeholders (e.g., the board may wish to establish a process to permit stakeholders to directly contact the independent directors), and (ii) expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials. In developing an effective communication policy for the issuer, issuers should refer to the guidance set out in *National Policy 51-201 Disclosure Standards*.	Yes. The Corporation also undertakes research annually on behalf of the board. Position descriptions for directors have been developed and approved.
Position Descriptions 5. The board should develop clear position descriptions for the chair of the board and the chair of each board committee. In addition, the board, together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities. The board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.	Position descriptions for directors have been developed and approved. A position description for the CEO has been developed and approved. The board has developed and approved corporate goals and objectives.
Orientation and Continuing Education 6. The board should ensure that all new directors receive a comprehensive orientation. All new directors should fully understand the role of the board and its committees, as well as the contribution individual directors are expected to make (including, in particular, the commitment of time and resources that the issuer expects from its directors). All new directors should also understand the nature and operation of the issuer's business.	Yes. The Terms of Reference for the board specify the responsibility for director training, which has been delegated to the Governance committee. New directors receive an orientation which provides an overview of the Corporation, its operations and its industry. Further, directors are educated on the role of the board, its committees and the expectation of directors. The director position description describes a director's responsibilities.
7. The board should provide continuing education opportunities for all directors, so that individuals may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the issuer's business remains current.	Yes. The board provides opportunities for all directors to increase their knowledge of issues and subjects facing the Corporation. Further, Crown Investments Corporation provides annual director training opportunities to all Crown corporation directors.

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Guideline	Saskatchewan Government Insurance
Code of Business Conduct and Ethics 8. The board should adopt a written code of business conduct and ethics (a code). The code should be applicable to directors, officers and employees of the issuer. The code should constitute written standards that are reasonably designed to promote integrity and to deter wrongdoing. In particular, it should address the following issues:	Yes. The board has adopted a written Code of Conduct for directors and a Corporate Code of Ethics and Conduct which is applicible to directors, officers and employees.
(a) conflicts of interest, including transactions and agreements in respect of which a director or executive officer has a material interest;	Yes. Conflicts of interest are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(b) protection and proper use of corporate assets and opportunities;	Yes. The protection and proper use of corporate assets and opportunities are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(c) confidentiality of corporate information;	Yes. The confidentiality of corporate information is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(d) fair dealing with the issuer's security holders, customers, suppliers, competitors and employees;	Yes. The fair dealing with customers, suppliers, competitors and employees is addressed in the Corporate Code of Ethics and Conduct.
(e) compliance with laws, rules and regulations; and	Yes. The compliance with laws, rules and regulations is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(f) reporting of any illegal or unethical behaviour.	Yes. The reporting of any illegal or unethical behaviour is addressed in the Corporate Code of Ethics and Conduct, and more specifically in the Whistleblower Policy.

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9. The board should be responsible for monitoring compliance with the code. Any waivers from the code that are granted for the benefit of the issuer's directors or executive officers should be granted by the board (or a board committee) only.	Yes. The Human Resources committee receives an annual report concerning compliance with the code. On a required basis, the Human Resources committee may grant a waiver from the code.
Although issuers must exercise their own judgment in making materiality determinations, the Canadian securities regulatory authorities consider that conduct by a director or executive officer which constitutes a material departure from the code will likely constitute a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations. National Instrument 51-102 requires every material change report to include a full description of the material change. Where a material departure from the code constitutes a material change to the issuer, we expect that the material change report will disclose, among other things: • the date of the departure(s), • the party(ies) involved in the departure(s), • the reason why the board has or has not sanctioned the departure(s), and • any measures the board has taken to address or remedy the departure(s).	Not applicable.
Nomination of Directors 10. The board should appoint a nominating committee composed entirely of independent directors.	Yes. The board has charged the Governance committee with the responsibility of the nomination of directors. The committee is comprised entirely of independent directors.
11. The nominating committee should have a written charter that clearly establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members and subcommittees), and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. If an issuer is legally required by contract or otherwise to provide third parties with the right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.	Yes. The Governance committee's charter is contained within the Terms of Reference.

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Guideline	Saskatchewan Government Insurance
12. Prior to nominating or appointing individuals as directors, the board should adopt a process involving the following steps: (a) Consider what competencies and skills the board, as a whole, should possess. In doing so, the board should recognize that the particular competencies and skills required for one issuer may not be the same as those required for another.	Yes. The Governance committee undertakes a skills assessment on an annual basis.
(b) Assess what competencies and skills each existing director possesses. It is unlikely that any one director will have all the competencies and skills required by the board. Instead, the board should be considered as a group, with each individual making his or her own contribution. Attention should also be paid to the personality and other qualities of each director, as these may ultimately determine the boardroom dynamic.	Yes. The Governance committee undertakes a needs assessment on an annual basis.
The board should also consider the appropriate size of the board, with a view to facilitating effective decision-making.	Yes. The Governance committee reviews and recommends the size of the board.
In carrying out each of these functions, the board should consider the advice and input of the nominating committee.	Yes. The Governance committee reports regularly to the board and when required makes recommendations. It should be noted however that director appointments are made by Order-in-Council.
13. The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees for the next annual meeting of shareholders.	Yes. The Governance committee has a recruitment and selection process which it undertakes prior to making recommendations for appointments to the board of directors and Crown Investments Corporation.
14. In making its recommendations, the nominating committee should consider: (a) the competencies and skills that the board considers to be necessary for the board, as a whole, to possess;	Yes. The Governance committee reviews the competencies and skills required for the board as a whole.

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(b) the competencies and skills that the board considers each existing director to possess; and	Yes. The Governance committee reviews the competencies and skills of each of the directors.
(c) the competencies and skills each new nominee will bring to the boardroom.	Yes. The Governance committee reviews the competencies and skills of nominee directors.
The nominating committee should also consider whether or not each new nominee can devote sufficient time and resources to his or her duties as a board member.	Yes. During the recruitment and selection process, the Governance committee ensures that potential nominees understand the requirements and have sufficient time and resources to devote to the board member responsibilities.
Compensation 15. The board should appoint a compensation committee composed entirely of independent directors.	Yes. The board has delegated the responsibilities for compensation to the Human Resources committee.
16. The compensation committee should have a written charter that establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members or subcommittees), and the manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.	Yes. The Human Resources committee's charter is contained within the Terms of Reference. The committee has the authority to engage and compensate any outside advisor it may determine is necessary to carry out its duties.
17. The compensation committee should be responsible for: (a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the board with respect to) the CEO's compensation level based on this evaluation;	Yes. The Human Resources committee undertakes a detailed CEO evaluation on an annual basis. As part of that evaluation, the committee reviews the previous corporate goals and objectives and evaluates the CEO's performance against those goals and objectives. The findings of the evaluation and any compensation changes resulting from the review are recommended to the board.

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Guideline	Saskatchewan Government Insurance
(b) making recommendations to the board with respect to non-CEO officer and director compensation, incentive-compensation plans and equity-based plans; and	Yes. The Human Resources committee reviews and recommends to the board and Crown Investments Corporation of Saskatchewan any changes to compensation.
(c) reviewing executive compensation disclosure before the issuer publicly discloses this information.	Not applicable. Individuals reporting to the CEO, which include all executive members, are required by legislation to file and report any changes in their compensation to the Clerk of the Saskatchewan Legislature within a 14 day period of time. Further, by policy of the Crown and Central Agencies committee of the Legislature, the Corporation is required to file an annual payee list which also contains the compensation of all members of the executive.
Regular Board Assessments 18. The board, its committees and each individual director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider:	Yes. The board conducts on a rotational basis peer assessments and reviews of the board and the chair.
(a) in the case of the board or a board committee, its mandate or charter; and	Yes. The board and its committees review their terms of reference on an as needed basis and at least every three years.
(b) in the case of an individual director, the applicable position description(s), as well as the competencies and skills each individual director is expected to bring to the board.	Yes. The board has a position description for directors; further, individual director's skills and competencies are reviewed as part of the regular assessments.

GLOSSARY OF TERMS

Broker — A person who negotiates insurance policies on behalf of the insurance company, receiving a commission from the insurance company for policies placed and other services rendered.

Casualty insurance — One of the three main groups of insurance products (the others are life insurance and property insurance). This type of insurance is primarily concerned with losses caused by injuries to others than the policyholder and the resulting legal liability imposed on the insured.

Catastrophe reinsurance — A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.

Cede, Cedant, Ceding company — An insurance company that transfers some or all of the risks in active policies to another company cedes its business. The company transferring its risks is known as the cedant or ceding company.

Claims incurred — The totals for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in IBNR reserve for the same period of time.

Combined ratio — A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100%, there was a profit from underwriting activities while over 100% represents a loss from underwriting.

Facility Association — Participation in automobile risk-sharing pools whereby P&C insurance companies share resources to provide insurance coverage to high-risk individuals or businesses.

GAAP — Generally accepted accounting principles. These are defined in the Handbook prepared by the Canadian Institute of Chartered Accountants.

Gross premiums written (GPW) — Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.

IBNR reserve — Abbreviation for "incurred but not reported." A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported.

Loss ratio (Claims ratio) — Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.

Minimum Capital Test (MCT) — A solvency ratio used by regulators to assess a company's financial strength. This ratio measures capital requirements in relation to the degree of risk undertaken by a particular company. The minimum amount required by this ratio, as determined by the regulators, is 1.5 or 150% of capital available over capital required.

Net premiums earned (NPE) — The portion of net premiums written that is recognized for accounting purposes as revenue during a period.

Net premiums written (NPW)	Gross premiums written for a given period of time less premiums ceded to reinsurers during such period.
Net risk ratio (NRR)	A ratio of net premiums written to equity. This ratio indicates the ability of a company's financial resources to withstand adverse underwriting results. The regulatory guideline is a ratio of 3.0 or lower.
Premium	The dollars that a policyholder pays today to insure a specific set of risk(s). In theory, this reflects the current value of the claims that a pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims.
Premium tax	A tax collected by insurance companies from policyholders and paid to various provincial and territorial governments. It is calculated as a percentage of gross premiums written.
Property insurance	One of the three main groups of insurance products (the others are life insurance and casualty insurance). This type of insurance provides coverage to a policyholder for an insurable interest in tangible property for property loss, damage or loss of use.
Prudent person	A common law standard against which those investing the money of others are judged against.
Redundancy & Deficiency	Claims reserves are constantly re-evaluated. An increase in a reserve from the original estimate is a deficiency while a decrease to the original reserve is called a redundancy.
Reinsurance	In its simplest form, insurance for an insurance company. It is an agreement where the reinsurer agrees to indemnify the ceding company against all or a portion of the insurance or reinsurance risk underwritten by the ceding company under one or more policies.
Reinsurer	A company that purchases the cedant risk in the reinsurance contract.
Underwriting	The process of reviewing applications submitted for insurance coverage, deciding whether to insure all or part of the coverage requested and calculating the related premium for the coverage offered.
Underwriting capacity	The maximum amount that a company can underwrite. It is based on retained earnings and investment capital held by the company. Using reinsurance allows a company to increase its underwriting capacity as it reduces the company's exposure to particular risks.
Underwriting profit/loss	The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.
Unearned premiums	The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of its insurance policies that are deferred to subsequent accounting periods.

BOARD OF DIRECTORS

JOAN F.D. BALDWIN
Doctor
Regina, SK
Audit and Finance Committee (Chair)

J. WALTER BARDUA
(Vice Chair)
Retired Insurance Professional
Nanaimo, BC
Governance and Human Resources Committee (Chair), Investment Committee

KENDRA CHESNEY
Information Technology Analyst, SGI
Regina, SK
Investment Committee

MERIN COUTTS
Regional Sales Manager, Shaw Cable Systems G.P.
Saskatoon, SK
Investment Committee

ROBERT FENWICK
Retired Insurance Professional
Markinch, SK
Governance and Human Resources Committee

W.J.A. (BILL) HEIDT
Retired Insurance Professional
Kelowna, BC
Investment Committee (Chair), Audit and Finance Committee

NANCY E. HOPKINS (CHAIR)
Lawyer, McDougall Gauley
Saskatoon, SK
Audit and Finance Committee, Governance and Human Resources Committee, Investment Committee

WAYNE HOVDEBO
Farmer
Birch Hills, SK
Audit and Finance Committee

ARLEEN HYND
Retired Chartered Accountant
Regina, SK
Audit and Finance Committee, Governance and Human Resources Committee

JIM MILLS
Retired Insurance Broker, Licenced Realtor
Elrose, SK
Investment Committee

RON OSIKA
Retired RCMP, Former Saskatchewan Crop Insurance Executive, Mayor, Fort Qu'Appelle
Fort Qu'Appelle, SK
Governance and Human Resources Committee

CORPORATE OFFICERS

EARL CAMERON
Vice President
Claims & Salvage

JOHN DOBIE
Vice President
Canadian Operations

RANDY HEISE
Vice President
Underwriting

DON THOMPSON
Chief Financial Officer

DWAIN WELLS
Vice President
Systems & Facilities

SHERRY WOLF
Vice President
Auto Fund

IN MEMORIAM

Elaine Ernst

Adjuster 1 (Auto), Saskatoon West Claims Centre, was regarded by her peers as a very kind, cheery and fun-loving person. She was also officially recognized as the office organizer and 'mother' of the claims centre. Away from the office, Elaine enjoyed many bus trips to casinos down south with her husband, Vern, and always looked forward to spending time with her children and grandchildren. Elaine worked for SGI for 21 years. She passed away at the age of 62 on March 16, 2007 after a short battle with pancreatic cancer.

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